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Hearings. v. 24-27, 1955.

1958















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ROYAL COMMISSION  
ON  
CANADA'S ECONOMIC PROSPECTS

HEARINGS

HELD AT

TORONTO, ONT.

JANUARY 25, 1956

VOLUME 24







at this point we will look forward to what you have  
Wednesday, 25th January 1956  
10.00 a.m.

APPEARANCES: H. S. Wingate, Esq.  
President, International  
Nickel Company of Canada  
Limited.

We very much appreciate the opportunity of presenting  
the Commission - and what we have prepared is a brief  
which has for its basic purpose of background  
information to the Commission, regarding the position  
of the nickel industry in Canada.

Thayer Lindsley Esq.  
President,  
Ventures Limited.

in stating the facts regarding  
we think those facts give some  
to what the future position of  
in Canada.

Dr. W.F. James,  
Consulting Geologist.

I will not bother you with reading the  
brief verbatim but I would like  
call your attention to the major points which we  
feel should be brought to your attention.

James Stewart Esq.  
President, Canadian  
Bank of Commerce.

Professor V.W. Bladen,  
University of Toronto.

J.F. Brown Esq.,  
Saskatchewan Federation  
of Agriculture

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THE CHAIRMAN: Well gentlemen, shall

we come to order? The first item on the agenda this  
morning is a presentation of views by Mr. Wingate,  
President of the International Nickel Company of Canada,  
about the nickel industry in Canada. With him are  
Mr. Noblet and Mr. Parker and a number of the company's  
officials.

- several pages will be reprinted and final definitive  
copies will be provided to the Staff. But with me  
are Mr. Wingate, to you and your company, for the obvious  
or two minor errors which have been corrected in your  
trouble you have gone to in preparing this information  
copies, the brief is in final form.  
for us and for the help of your company to our Research  
Staff in the work this commission is doing. We  
which is on the numbered third page from the inside  
appreciate it very much. Now if you would take over

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at this point we will look forward to what you have to say to us.

MR. WINGATE : Thank you Mr. Gordon.

We very much appreciate the opportunity to appear before the Commission - and what we have prepared is a brief which has for its basic purpose the giving of background information to the Commission, regarding the position of the nickel industry in Canada as it is today, and in stating the facts regarding the industry's position we think those facts give some pretty good clues as to what the future position of the industry will be in Canada. I will not bother you with reading the brief verbatim but I would like to go through it and call your attention to the major points which we feel should be brought to your attention.

The brief includes we think, all of the material which your Staff has requested to be provided of a statistical nature. It will be supplemented with what further information the Staff may desire after it has been examined. I want to apologise for some of the mistakes in your copies of the brief - several pages will be reprinted and final definitive copies will be provided to the Staff, but with one or two minor errors which have been corrected in your copies, the brief is in final form.

The brief starts with a foreword which is on the unnumbered third page from the inside





cover,-- expressing the purpose of the brief, which I have just mentioned. I would like to read a little of what is said, that our experience, and we have been in this business as a company for fifty three years, with predecessor companies going back as far as Eighteen Eighty six, and operating as International Nickel Company from the year Nineteen hundred and two until the present time, the experience that my predecessors and my immediate associates and I have had in that period of time - and in the time we have been part of it - has made it perfectly clear to us that there is no one facet of the Nickel business which is responsible for its rather unusual success. The success of the industry has been due to the fact that our companies and the others engaged in the industry have proceeded on a rounded basis - not neglecting the search for ore - never failing to advance in the development of new and improved methods for extracting the ore and working it up into the most useable and saleable forms and, associated with these activities of exploration and production nature, equally intensive activities in the direction of research on making uses for nickel, where uses didn't exist and, perhaps, weren't dreamed of before, and having developed uses, or having invented uses, having thought of them, to then communicate to the





potential industries of the world, what those uses are and the practical every day advantages that those uses could contribute to them. Roughly half of our activity is devoted to what I mentioned first - the production problem, the discovery, the constant race to bring and hold down costs through improved methods of production, and the other half has been the constant race in competition with a host of competitors, producers of other material and otherwise of accomplishing the same end result which sometimes has never been accomplished -- in proving by research and developing products and then marketing the efforts we have been engaged on, where the place exists in the great industrial areas of the world. First establishing and then holding and then endeavouring to enlarge the position for Canadian nickel.

What is the future going to bring;

I suppose what makes our future so exciting and challenging is the enormous number of imponderables with which we are faced -- we don't know how many of the new uses which are now not very much more than at the laboratory stage - how many of those uses are in time going to become very important uses. For example my company was perhaps the first company in the world to develop high temperature alloys which today are used in a great variety of ways to deal with the problem of high temperatures in the jet plane.



That undoubtedly is going to be an extremely important and large field which will expand, particularly as that method of power application gets extended from the air to the ground, to the automobile and other applications. It is impossible to predict to what extent the new uses of that type and other uses which are coming along, will be developed. For example, many applications which nickel can have, in connection with atomic energy production - we don't know where we are going, but we are going to prepare ourselves for every contingency. At the same time we are not in a position to assess the extent to which the business which we are now losing because of the shortage of nickel, will be proved to be permanent. We learned during World War Two that many of the substitutes which came in for nickel, unfortunately were permanent substitutes, and nickel in a period of relatively ample supply which followed World War Two, was not successful in fully winning back markets which they previously had. There are many spots where nickel is losing out today because of our unfortunate inability to meet the combination of enormous civilian requirements, on which is superimposed extremely large Defence requirements, and finally on top of which are further imposed the large and important stock-pile requirements of the United States Government.





When the United States stockpile requirements will end is also an imponderable. It is not a simple question, when this information is of course a first rank secret on the part of the United States Government. It is as much the fact that we do not know - and they do not know - what sort of war - if there is to be one - will be fought. Their ideas on how much should be stockpiled have undoubtedly changed several times over the past few years and it is impossible for anyone today, to forecast how long the impact of the stockpile is going to continue to hamper the use of nickel and is going to continue to bother us, while our competitors are trying to promote other materials and are at work trying to have their products specified in preference to products which contain nickel.

Another imponderable and a very important one, is how long will Canadian producers be successful - as they have been successful in the past - in discovering large quantities of nickel. As you will see, as we proceed through the pages of the brief, the industry has been highly successful in maintaining a very satisfactory level of ore reserves which insures the stability of the communities in which we operate and ensures the future of the industry for a great many years ahead.





The industry now is, to all intents, working at the highest capacity possible, having regard to the future of its ore reserves and the stability of the areas in which the companies are functioning, and the ability of the Canadian industry to expand from its present level which is a very high one, will unquestionably depend on the success or the lack of it, in discovering additional ores which would become commercial. I am entirely confident that if the industry continues the habits of the past, of never relenting on its exploration work - whatever the cost - never getting in the frame of mind of being self-satisfied and content with the old ways of doing things, and if, likewise, we will never assume that nickel can be sold without constantly learning more and more about its properties and uses and keeping abreast -or a little bit ahead- of the rival work of the metallurgists working for our customers and working for other producers - trying always to displace nickel in favour of something less costly and perhaps more abundant -- that this industry is going to be a very prosperous one for the twenty five years ahead, which is the period you gentlemen are examining. I would hope that it may be possible for the industry to advance in the way that some of us feel it is capable of advancing, namely that we have gone an awfully long way in the last





fifty years and we have just got the idea that we ought to be able to go as far in the next fifty as we went in the past fifty years. Just wishfully hoping to do that - we have to have some luck in our exploration, but given good fortune in exploration, and given a relentless drive in building world markets, where the markets are - there is certainly a virtual assurance that this industry will be an extremely healthy one for Canada in the years ahead and that it is capable of substantial extension.

Turning now to the body of the brief, on page one, I have mentioned that the unique properties of nickel which make it attractive to the market, unfortunately present us with a great many difficulties in mining nickel. This industry started, as I mentioned, in Eighteen Eighty Six and in that period of time until the present, it has provided the free world, - and that is not only the Canadian industry but the entire industry outside of Russia, and I have left Russia out of all the figures because of lack of knowledge of what they have been doing during the period prior to World War Two,--in the over-all life of the industry, the industry has provided the world with some four and a quarter million tons of nickel and the part that Canada has played in that is indicated by the fact that eighty





four per cent of the whole was provided by Canada.

After World War One the industry came pretty much to a stand-still; the industry prior to World War One was founded mainly on the use of nickel for armour plate, plating, etc. and much the largest application during the world war one of course was in armour plating. As a result of the peace conference and settlements following world war one, that particular market completely disappeared and the Canadian industry was practically in the doldrums. In the year Nineteen Twenty Nine the total production of the industry was sufficient in terms of present day activity, to support all of the Canadian nickel mining and treatment operations to the extent of approximately eighteen days. It was obvious that - with the major market having been lost - something had to be done about it. At that time my company was the only North American organization engaged in the nickel business here, and the responsibility fell to us to try to do something about building markets where markets didn't exist. We organized a completely new research organization which started back in the laboratory and started in all the archives, reading everything there was about the properties of nickel, endeavouring to build an education. That having been successful, as shown by the figures I stated



as the total world production of nickel which occurred during this period, and by some of the information I will give as we go along - and the expansions which have occurred from the time of world war one until the present; the Nickel Industry in Canada is not solely a nickel industry. The success of the industry and its importance to Canada concerns the by-product metals or the associated metals which come with nickel.

In the case of my company we produce just about as much copper as we do nickel. Copper is extremely important. Also all the other Canadian producers -- some of them don't produce quite as much proportionately as we do - but it is a fair generalization that the other producers produce at least half as much copper with nickel and it is a major part of their activity to produce and market copper and other by-products which are associated with the mining of nickel. Platinum metals which are recovered from sulphide ores are of first importance. Canada has for many years had about half the platinum metals producers in the world -- at the present time South Africa is probably again ahead of Canada but Canada ranks not less than second in importance in the world, as producer of platinum metals, which have developed more and more industrial applications. Platinum metals include platinum, palladium, rhodium,





ruthenium and iridium. So far as Canadian production is concerned, in relation to that there is a significant production, along with nickel, in cobalt. My company has again in the last year or two, for the first time entered the production in Canada of refined cobalt, as against previously having produced solely cobalt oxide. The industry produces also Selenium and fluorium sulphur is recovered in various forms as by-product. More recently the industry has gone into the production of iron - recovering iron from that portion of the ore - or fraction of the ore that is known as pyrrhotite iron content - and in the case of my company there is, one of the Associations mentioned to you yesterday, the fact that we have just concluded the expenditure of nearly twenty million dollars in developing a completely new process for the extraction of both nickel and iron - separating the two. That plant will provide nickel, as in the prior operation, and will provide some three hundred and fifty thousand tons, approximately, of extremely high grade iron ore which will offer special advantages to the steel industries of Canada and the United States.

We are confident we will be successful in this operation and that very soon we will be in a position to go forward to treble output - raising production to approximately one million tons of iron





ore - a recovery which was only a dream ten years ago.

MR. GRAUER : What is the level of production you can sustain with your supply ?

MR. WINGATE : Of Iron ore ?

MR. GRAUER : Yes ?

MR. WINGATE : We can sustain that million tons a year indefinitely. As I mention on the first page of Chapter One, the heavy demand for nickel - plus our conviction that we are capable of expanding the markets further, has resulted in extremely extensive work of exploration. We are exploring most actively in the Sudbury district. We spend approximately half of our money right at home underground and on the surface, drilling, always to see if we can find more there. There is an old saying that you will find metal where it has previously been found and you had better concentrate your efforts there. We don't confine our efforts though - we are exploring in all parts of Canada where the geologists suggest that nickel making areas exist and we even do not confine our efforts to Canada, if nickel is to be found in important values in any portion of the world we think it is a good idea that we find it rather than some non-Canadian organization. We are exploring in Minnesota - in Australia - and we continue our work



in Venezuela. We will go anywhere in the world where nickel possibilities exist and search for them. I am glad to say that, as things look to us, Canada is the favourite and most likely hunting ground and therefore far the greatest portion of our energies are being and, I am confident, will be spent here in Canada, - the North West Territories, Manitoba, Saskatchewan, Quebec, Ontario -- wherever it appears that there is a possibility of finding nickel. The most likely area at the moment is Manitoba - we have spent well over six million dollars in prospecting in Manitoba and so far we can't say that we have got anything to show for our money. We have discovered a large tonnage of very low grade ore but on the basis of the present knowledge, it doesn't yet seem to be commercial. We have just completed sinking the two million dollar shaft, going down some thirteen hundred feet, to carry on our prospecting from levels underground, to find out more accurately just what we do have. Within a year we will know something. We may be completely disappointed as we have been before, and find that there is no possibility of going forward. We may find that we have a highly marginal operation and it faces us with a very difficult decision as to whether we should spend a great many million dollars to go ahead. We may be lucky





and find something where the answer is perfectly plain that we should go ahead and we will, of course, be most eager to do so - if it develops that way.

The nickel industry in Canada at the present time is mainly conducted by three companies - International Nickel Company of Canada, Falconbridge Nickel Mines and the newest entrant of all -- Sherritt Gordon Mines Limited. There are also two other companies -- I am looking at this because they change their names so often that sometimes I have difficulty keeping up with the names -- Nickel Rim Mines Limited and the Nickel Offset Limited. International Nickel of Canada has a group of underground and open pit mines, Stobie - surface production two million tons; plus four other large underground mines - a total of five. We have two concentrators where the ore is milled or threshed, and the rock and dirt separated as much as possible, roughly removing from the ore as it comes out of the ground something of the order of seventy five per cent of the material and leaving twenty five per cent to be worked over through a great many ramified metallurgical operations that we carry on from that point on.

We have two smelters at Coppercliff and Coniston; we have them affiliated with a large copper refinery at Coppercliff and a large new refinery at Port Colborne. The Copper refinery also has a unit which is a precious metals refinery





and a relatively small part - approximately ten per cent - of all of the Nickel and Copper metal which we produce goes to the United Kingdom for refining in a refinery which we inherited when we merged with the Mond Nickel Company, in the year Nineteen twenty nine. The material which goes to the refinery is virtually in a form suitable for market with a relatively small amount of further refining which is done on the part of the British Refinery.

We also have as a part of our market or our research effort, in developing new uses, rolling mill facilities in the United Kingdom - a small one in Glasgow, Scotland and one in Birmingham and another which we are operating through the British Company at Hereford, in the Midlands. And in the United States we have two somewhat similar operations, one at Huntington, West Virginia, and a small foundry in Bayonne, New Jersey. These plants are all now served to all intents and purposes, with the same raw material that is available to any buyer of metal in the world. There was a time when at least the American plant received what was actually a matter of material which did not work - wasn't practical -- that method was abandoned about Nineteen forty seven and at the present time these plants operating in the United Kingdom and the United States are serviced



with essentially market material.

The function of the plants is primarily to develop new and varied types of alloys and to tailor-make them to the particular forms and shapes and compositions that the industries in that particular area require, which has been of immense value to the company in extending the demand for nickel products, in showing the way to other customers of nickel - as to what they can do with nickel and inspiring them to become expanded consumers and of course -- looked at from a selfish point of view -- it has meant that Canada has a rather unique foothold in the British market and in the American market, through having these outlets under its own control and not under the control of others capable of switching in other directions, when opportunities come to obtain supplies from other sources, as now exist.

I have touched the plants briefly and now ore reserves of International Nickel - are reported each year - they are described as proven ore reserves; our ore reserves at the end of Nineteen fifty four consisted of two hundred and sixty one million tons with nickel-copper content of seven million eight hundred thousand. Now, at the same time, we produce, or we mine a total (this is in the year Nineteen fifty four) - of about fourteen and a half million tons. That is to be compared with two hundred and sixty one





million tons of ore. If that can be taken as a measure of life, it is obvious that - if I am reading my notes correctly, that that would be a life of about eighteen years. However if the life is measured in terms, not of the tons of ore mined as against tons of ore in reserve, but rather in terms of the relation of the total pounds of nickel-copper which we have sold in a given year, related to pounds of nickel-copper in the reserves, you get quite a different figure.

Our total pounds of copper and nickel marketed in Nineteen fifty four was two hundred and seventy thousand pounds, as against that, pounds of nickel and copper in our would-be reserve (which we are certain they are there) of seven million, eight hundred thousand, would reflect a life of some twenty nine years. Now, that doesn't take into account the fact that in arriving at the finished product, you lose a lot of nickel. You can't recover all of the nickel that is in the ground. At the same time those two figures give a general feeling as to expectancy ahead, if you look at them in terms of pounds of nickel and copper ahead as against what is in the ground, not discounting it for the fact that the recovery is nothing like one hundred per cent, you get a life in the order of twenty nine years. This doesn't tally at all with the





question as to how lucky you are going to be year after year, in maintaining your ore reserves and therefore extending and fulfilling the plans of this company. Fortunately, I could have stated almost exactly the same years ahead, five years ago, and the five years has not decreased in that passage of time.

Looking now at some of the other companies, and anything unusual about the other companies, I do so with some hesitancy, because first of all it is not quite proper to comment on the affairs of other companies, particularly any with whom we compete. Therefore I can only comment on published information and try as best I can to translate the meaning of that published information, as I see it, to the commission.

The Falconbridge Company published the nickel-copper content of their ores and they may measure them in a somewhat different way than we do - but in the particular way in which they measure their ores, they record a copper-nickel content of eight hundred and fifty five thousand tons - a little bit more than ten per cent of ours. We had seven million, eight hundred thousand, and they record ore reserves in tons of ore of something in excess of thirty five million tons. That includes their so-called developed ore and also what they classify,



I believe, as indicated ore. Using the same measure for translating this into life, as I tried to use in our case, in terms of tons mined as against tons of ore the indicated life would appear to be about twenty seven years - you will remember I said in our case some eighteen years. However, if looked at in terms of nickel-copper content, since perhaps the nickel-copper content of ours might be slightly ahead of theirs, though very little, their indicated life - which I mentioned for ours as twenty -nine years, becomes twenty eight -- about the same.

In the case of the Sherritt Gordon Mines Limited - their total reported ore reserves - and they haven't been in business as long as we have and Falconbridge have --therefore what the future may bring for them may perhaps be on some different pattern than for us -- but what they have reported to date is about thirteen and a half million tons of ore - with a nickel copper content of two hundred and forty three thousand tons. Again using the same measure in terms of tons of ore versus tons mined - about fourteen and a half years of life and in terms of copper nickel content, about eighteen years of life.

Totalling these all up together, and this is what we are really interested in here, as to





what it is for Canada - it would seem that on the basis of all tons in the reserves of these three companies, as against the total tons ore mined, that the composite would be something in the order of nineteen years - measured in terms of pounds of nickel-copper sold and delivered divided into the pounds of nickel-copper reported to be in the reserves, it would come closer to twenty eight years. It is perfectly evident that there is a substantial period ahead and which, even without discoveries, and there will be many discoveries, which will permit the industry to operate.

We should bear in mind also that in thinking of this life, of course no mines could ever operate for twenty eight years and then all of a sudden, overnight, decide to close. First of all you can't mine that way. Different parts of your mine run at different times and then, even if you could run a mine that way, from the social point of view you wouldn't mine that way. So that, if Canada, or Ontario, should have no further ore discovery what would happen - very soon all the producers would begin gradually to taper off their production and - rather than waiting for these theoretical dates, which I have mentioned - they would by those dates have greatly contracted their production, which would taper





off a good many years after that, to no production.

The brief, on page five, gives current information and semi-current assumptions relating to what happened in Nineteen fifty five and published data on Nineteen fifty three. In the case of my company, it brings out that the total tons of ore that we mined in Nineteen fifty five is practically identical to the tonnage we mined in Nineteen fifty four. We expanded our underground mining and we were forced by the gradual exhaustion of the open pit areas to mine somewhat less from the surface - but the combined output was approximately the same as it was in the previous year. If you turn for a minute to the next page, - or pages six and seven - you will see first on page six, a graph which, in the lower line shows the total tons of ore which my company has mined from Nineteen thirty until the present time. That shows cumulative-tonnage that we have mined as two hundred million tons. Now in the same period of time, we have added to our ore reserves two hundred and fifty nine million tons and the net result is, that today we have in our ore reserves fifty nine million tons more than when we started. That happened mainly for two reasons. We discovered a great deal of ore during that period which we did not know and did not even suspect to exist.



In addition, the result was achieved - besides the discoveries of new ores - through the fact that we were successful in developing new methods of mining ore by treatment which made economical deposits which hitherto had not been classified as ore because they were plainly uneconomical.

The progress is essentially a combination of these two things; new discoveries, and making an uneconomical deposit into an economical deposit, and therefore classifiable as ore.

Taking the first category - an example of this is a large area that we had and which I first saw in Nineteen thirty four - we had closed it down in Nineteen thirty two. We knew there was some ore left but it was a period of very short demand. As business began to pick up in Nineteen thirty seven we decided to go in there and mine it all, once and for all - and finish it up. We put new shafts down and we explored it thoroughly and we came to the conclusion in Nineteen thirty seven that that particular area had a life of seven years and that we would go all out to mine it out and close it up finally in seven years. We didn't surmise the existence of any additional ore. We had no reason for hoping there was additional ore, but as we went along we simply said to ourselves "we owe it to ourselves to span out in





every conceivable direction and confirm our judgment that there is no ore." We didn't confirm our judgment - we found a lot of ore and the life of that particular mine today is twenty two years ahead, from today, whereas, on the basis of the best information available in Nineteen thirty seven, there was absolutely no hope that the mine would exceed beyond seven years.

Another example of the same sort of situation was in the case of a great crude mine. Here was a mine that we went in to develop on an enormous scale in the year Nineteen thirty. Now everyone knew that the Creighton mine was through and the future hopes of the International Nickel were going to depend on the crude mines. It seemed to go down, down, down - fortunately, and it was obviously the greatest nickel mine in the world, as perhaps it was. However, today we know the bottom of that mine. We think we do, but we felt certain that we knew exactly where that mine ends, years ago. A geologist would never have said that he surmised it would go further - though there was obviously the hope on the part of International that it would go further. It doesn't; we know exactly where that mine ends - we have plumbed it. But this poor Creighton mine which had been struggling along from about the year eighteen hundred and eighty and which was just



all worn out - through the same kind of exploration we have done there that we did in the first example I cited, we have increased areas which we said didn't exist - we had no basis for surmising they existed and it has again become what it was once, fifty years ago - one of the greatest nickel mines in the world.

Also in Creighton is a very good example of the other factor that I mentioned. The conversion of worthless material into valuable material. We had sections in the Creighton mine which were extremely low in grade - both in nickel and copper. Through the incentive of enormous demand and confidence that our developments in research and marketing work were being successful, we gambled on this development underground - on the laboratory basis - of special methods in caving huge areas at extremely low cost to us, so that we could devise a caving method which, in our complicated structure could salvage ore rather than having it just get lost in pockets.

We found that by developing completely new methods of mining and very modernized concentrating plant service, and then doing an unheard of thing in pumping nickel by pipeline for seven miles to another plant, that we were able to develop a method for converting ore which all of us, just a few years before, had thought of as being hopeless, into an extremely





profitable ore in large quantities. The chart on the right hand side shows the troubles which we would have been in if these two things had not been happening - the combination of discovery of ore and the development of methods of making these uneconomical deposits economical. However, had we just been able to proceed on the basis of the ore bodies in which we had confidence, we would have been down to virtually zero today, starting with two million tons of ore which we had in Nineteen twenty nine; at the black line on the top of that chart we show that not only have we been able to maintain our position but we have gone forward. I am happy to say that the curve is about the same when you think of it in terms of the nickel and copper content of our ores as well as the total tonnage - which is greater today than it was in Nineteen twenty nine, inspite of enormous output that has taken place.

THE CHAIRMAN: This may be a good time for a five minute break Mr. Wingate.

MR. WINGATE : Thank you Mr. Chairman.

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Recess  
After recess

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MR. WINGATE : If you glance for a minute to page forty eight Gentlemen, there is a



a graph which will show you at a glance, the tremendous additonal job which my company has had to do. We started - taking the five years from Nineteen thirty to Nineteen thirty four - we were mining underground, which was our only source of mining, one million seven hundred thousand tons. The present mining from underground is twelve million seven hundred thousand tons; we mine a small amount from above the ground from surface, making a grand total of fourteen million, two hundred thousand. We practically wiped out the open pit surface capacity as a special war measure - it was easily accessible which we could reach for the purpose of meeting heavy war requirements, but the result of that has been that we have had to go into an enormous underground expansion programme in the post-war years, bringing our present underground production to some nearly thirteen million tons. This compares with less than two million tons in Nineteen thirty to Nineteen thirty four - and if you want to go back further, the approximate level of production in the years Nineteen hundred to nineteen hundred and twenty was about half a million tons, as against where it stands today at a total of about fourteen million tons. It does show the enormous job which our operators at Copper-cliff have had to cope with.





Getting back to where we were on page five, in the brief, I don't think we need comment further on pages five, six or seven -- and now turning to page eight, the top circle graph shows in black the portion of the world's nickel industry occupied by Canada in Nineteen hundred and two; the chequered part represents the production from the then major world source, which is still very large potentially, as a source, - New Caledonia. By Nineteen hundred and Nineteen as shown in the circle on the left, however, Canada's position greatly expanded - she was producing some forty four thousand tons of nickel as against New Caledonia's production of two thousand tons and other world producers - one thousand. Now turning to the current position, Canada's position is still very greatly dominant but the others are widening the position which they occupy. The new major entrant is Cuba with a production of some fifteen thousand tons nickel currently, and New Caledonia with about fifteen thousand tons and others of five thousand, and about one hundred and sixty one thousand from Canada.

The Canadian portion, will, with the conclusion of present expansion plans, be reduced somewhat. There is expansion underway in Cuba and there will probably also be expansion in New Caledonia which will be proportionately somewhat greater than in Canada.



Turning now to page nine, we refer to some of the factors affecting our position. The great increase that has occurred in our labour costs - before the war, we paid some sixty-seven and a half cents as an average hourly wage - we are now paying a dollar ninety six - an increase of approximately three times what we paid in the years immediately prior to World War Two. In the same period of time the cost of living has gone up in Canada about eighty nine per cent.

We refer to the problems of power, to the cost of many fringe benefits and those are certainly not unique for us - we are in the same position as others except that perhaps wage-wise we are definitely on the high-side, of other industries in Canada. With respect to the present knowledge of the prospect of cheaper power generation by the use of natural gas, we don't think of that as being particularly promising - at least not in the near future. It may become promising ultimately but that is not something that is about to help us. Cheap natural gas is, of course, an important factor and a helpful factor to the third newest producer - Sherritt Gordon - which has its operations in Alberta.

Our supply costs have gone up enormously -- I have noted here that mine timber for example, used to cost us thirty six and a half dollars per thousand.





Well, it now costs us a hundred and fifteen dollars; - one of our biggest cost factors is of course, plant equipment. Whereas a standard type of shaft cost, that we used for our operations just before the war, would have been in the order of five hundred thousand dollars - a comparable job to that today would cost one million, six hundred thousand dollars - and the hoist for such a shaft would have cost seventy eight thousand before the war - but it now costs us a quarter of a million dollars.

Whether these cost factors will continue to go up will, of course, be based mainly on whether or not labour rates continue to rise - as they have been rising in the past. And if they do, costs for our principal components - supply costs and our plant construction costs - these will all continue to go up. Of course, a major factor that we have which other industries don't have, is the cost that we have to bear through progressively dealing either with lower grade ores or ores which - not necessarily are of lower grade but are of a character which are harder to deal with. As demands expand we necessarily find ourselves more and more struggling in dealing with ores, which ores in the past we thought were uneconomical, and we are trying to make them economical. That is a special cost burden which falls on this company and also on this industry. My own



company has been extremely successful and I believe that the position of the others is substantially the same in dealing with these problems and that the grades of ore which we have been dealing with have been going down -- the types of ore that we have been working on - it is harder to work with - but in spite of that I think all of us have recorded satisfactory levels of profit.

Now the staff asked us to say a word or two in regard to transportation facilities available to the producers, and that is referred to on page ten. As a generalization, my company does not occupy a position which is more favourable in any respect than the position of the second largest nickel producer - Falconbridge Nickel Mines - but Sherritt Gordon Mines are out in the West, further away from the market and therefore, transportation-wise have some handicap, but other than that they have advantages there which we don't possess in Ontario, of cheaper fuel.

Chapter Five deals with production and technology changes and also, in our exploration programme, it brings out that the technological changes in producing nickel of course, depend upon the type of ores that are being exploited, and the best methods for recovery are essentially the "fire treatment" or pyro-metallurgy methods, - the new





methods are divided between that and the liquid methods of reduction technically referred to as the hydro-metallurgy technique.

Dealing first with the sulphide ores which are referred to on page eleven, ours average about three per cent nickel and copper - the Falconbridge figures show one point fifty nine nickel and about point eighty two copper which is a composite of approximately two and a half per cent and a comparable composite figure recorded by Sherritt Gordon is two point eight per cent. All of the producers have been engaged in important expansion programmes and in my company we have increased output by fifty five million pounds over what it was in the last year of the War, when we were trying to get out all the nickel we could - namely, the year Nineteen forty five. We are in fact about one hundred million above where we were in the year after the war when pressures were not as heavy - but some fifty five million above where we were during the war. Falconbridge is up about twenty two million from the same point of reference and is just on the way towards further expansion of some thirteen million pounds. Sherritt-Gordon, the newly entered producer during that period, has a current production of some eighteen or twenty million pounds of nickel.



Now the combined effect of this is that Canada has increased her production of nickel from the level achieved during the last year of the war, by approximately ninety five million pounds - when the figures are in from the others for the year Nineteen fifty five, it may turn out to be approximately a hundred, but we considered ninety five million as a conservative indication of the expansion of the Canadian nickel output - that is an increase of nearly forty per cent. Other world producers outside of Canada have also provided substantial additional supplies.

I would estimate that the non-Canadian producers, compared with the ninety five million increase in Canada, have increased their output by about forty million pounds. The result of the increase outside of Canada is that whereas Canada used to supply roughly eighty or ninety per cent of the world's output - she presently will be supplying approximately seventy five per cent of the world's output -- the other twenty five per cent coming mainly from Cuba and from New Caledonia and partly from other deposits in the United States.

The Cuban deposit is producing now as a United States venture, which was started during World War Two -- in order to augment supplies for military purposes. It was closed after the end of the war





and was re-opened in connection with the outbreak of the Korean war. That plant is now being extended and as of the first of next year will be producing some fifty million pounds of nickel. In addition to that the French Company in New Caledonia is currently producing about thirty million pounds and the Hanna Company of the United States is producing eighteen million pounds and then in Cuba there are extremely large deposits of ore, which in terms of nickel content, would compare fairly favourably with the nickel in Canada.

You will remember the figures here in the case of the Falconbridge Company and the Sherritt-Gordon Company of something in the order of one point six or one point five nickel --there are very large quantities of ore in Cuba running one point four per cent. There are vast quantities of ore in Cuba running from point eight per cent to one point three per cent nickel.

Every year a greater obstacle is presented through difficult problems to the metallurgists in winning it away from the associated metals and bringing it out as refined nickel. The American Government estimated its operation in Cuba, that all costs, including depreciation on their plant, over the period of approximately seventeen years



in fact, the estimated life of the particular reserves supporting the mine - their costs, everything included, were between forty-eight and forty-nine cents a pound. Adding to that the cost of getting it to market, it would be a cost of approximately fifty cents a pound as compared with the price at which the American government is selling it of sixty-one cents. Whether that cost level will be important on the expansion that is now under way remains to be seen. They obviously hope it will be important. The American Government and the operators of the plant -- the plant is being operated for the American Government by the National Lead Company which, of course is trying to see if they can recover valuable by-products - approximately ten per cent of cobalt is associated with nickel in the Canadian ores -- so far they have not been successful in any recovery of appreciable portions of cobalt but, if they were successful, with cobalt selling at two dollars forty cents a pound, - and could recover all the cobalt there which they hope to eventually do, that would obviously give them a credit of approximately twenty-four cents on the cost involved in recovering cobalt.

If the U.S. Government and others who are active in developing Cuba continue to make much progress in their recovery methods, Cuba unquestionably





will become a much more important factor in the nickel business in the future than it has been in the past. The reserves which stand behind the American Government's operation in Cuba were reported by the Department of Mines at Ottawa at something in the order of twenty-four million tons. More recent reports published by Washington indicate something in the order of sixty million. There is another operation which is being examined in Cuba which is reported as having some forty million tons, but there is every possibility of developing these lower grade ores which average around one per cent nickel tonnages and are simply immense. I have talked a bit about the exploration that has been done in Canada. I might mention that my Company has spent thirty-one million dollars in exploration in Canada during the past ten years. As I said before that is divided about equally between the exploration we do in the Sudbury district and other places and our expenditures during the past three years have averaged five million dollars a year. We used all the most modern methods of education. We ourselves were the first to develop the uniform method for aerial education of possible new areas. It is a great advantage. It enables a company, or a prospector, to weed out tremendous areas very quickly which otherwise would have to be plodded,



and plodded over and we can sift out, of course, very quickly what otherwise would take years to do. Our aerial education, eliminating all these things, brings us quickly to locations where we have to decide or determine whether development is possible.

New nickel deposits that have been found in Canada in the past ten years have, in general, been very small deposits, difficult to operate, because of their smallness even though the grade has been high or fairly large deposits of marginal or sub-marginal grades. Perhaps one exception to that is the development by and discovery of Sherritt Gordon, where they have developed fairly substantial tonnages of ore capable of supporting an appreciable production with a reasonable grade of ore.

Chapter VI deals with the tremendous changes that have taken place in the scope of industrial operations in Canada since the end of the First World War. I think the quickest way to show you how the nickel business has become an industrial business in Canada, rather than merely a mining business, is to glance at the charts at the very end of the brief. You will see first a chart of everything my company did in Canada in the first part of the year 1918. It doesn't describe what we did any more than our mining operations, but from that point





on, having raised it up the hoist and brought it to the surface what we did in Canada was to send about eighty per cent of the material over the blast furnace and then that early simple converter operation, to make what is known as a matte containing nickel and copper. Part of the material took another route and went through a reverberatory furnace operation and then to the converter, and that is the sum total of everything my company did in Canada in the year 1918.

Now, if you will turn to the chart that follows that, this picture on exactly the same scale as the other one, relates to what we do in Canada today. The main stream of the movement of our raw material is the top line, approximately ninety per cent of the material moves through a series of operations which were not necessary in 1918. They are necessary now, partly because of the different ores that we are dealing with and partly because of our realization that by going through these operations we can recover a tremendous amount of bi-product metals, such as platinum, palladium, selenium and fluorium, which through the older methods of treatment would have been lost. We carry on there, as you will see, a whole series of complicated processes which at each stage involves very large capital expenditures,



so that the picture of what we do today is completely different from what we did before and as you read the text of this, you will realize that this Company which once was thought of, or thought of itself, solely as a mining company, is now in Canada a very complex metallurgical operation. The metals that don't go through to that point is negligible. With one exception everything that is produced in Canada, every metal that we make is taken up to marketable form. That exception is our precious metals which are semi-refined and the final refining of the precious metals is done in the United Kingdom at our precious metals refinery which we inherited on the merger with the "Mond Nickel Company." We still ship, as I mentioned, raw materials, but in a form virtually suitable for market to the British refinery which handles about ten per cent of our output and we ship concentrate to a rolling mill in the United States which takes roughly five per cent of the output in the form in which we offer it to any other potential nickel customers in that part of the world. I think you would be interested in seeing the very large change that has occurred. Going back to page 17 - as a result of these changes, and I would point out how greatly our ores production has increased in Canada and what this has meant to Canada in terms of foreign exchange. What it has





meant in employment. In 1918, before we started any of these things we had two thousand nine hundred employees in Canada. We have eighteen thousand today. At that time as a result of similar operations, the population of the Sudbury area was about twenty thousand. Today the entire area comprises approximately one hundred thousand. We of course made not a negligible contribution to the progress of a number of manufacturing industries, whose products we greatly need and value.

Turning to Chapter VII we bring out that the world is Canada's market. We have to find a great number of ways wherever the opportunity exists, to sell nickel. The greatest opportunity exists in the industrial areas of the World, the United States being the largest industrial area takes the greatest quantity of nickel and it is, therefore, there where the greatest amount of our research development and our marketing effort is directed. You will see that Canada consumed in 1954 some four thousand tons, or a little over two per cent of the total world production of nickel. Since my company supplies all or virtually all Canada's requirements, ninety-nine plus per cent, about four and one-quarter per cent of our nickel goes to Canada. I have estimated on other occasions that if we were to be dependent solely on



the home market, that we could operate for ten days.

We have made a lot of progress in understanding and in expanding the home market. We will make a lot more. We are probably not selling more products here at the moment, relative to other markets, for the obvious reason that the supply here is reasonably adequate - whereas the supply of other markets is not. For that reason, we have made, proportionately, considerably greater progress in the development of markets here than elsewhere, but, as will be evident from these figures, we must have foreseeable years ahead for the great European and American markets for outlets for our products. If you will glance for one minute at page twenty - the next page - you will see that the nickel business and the industrial index in the United States has a very close parallel, with nickel being somewhat ahead of the industrial index. The consumption of nickel as related to the industrial production index in Canada, is shown on page twenty one, and it brings out what I have just mentioned, that in Canada, nickel has gone ahead more rapidly than the forward movement of the industrial index in Canada - supplying total supplies of nickel in the order of twelve million pounds whereas the amount was trifling in the year Nineteen twenty nine.

If you will turn for a minute now to page





50, you will see a chart there showing how the American consumption corresponds with the total steel production in the United States and, there again, a very close parallel exists. Now that is not a case of the use of nickel in steel. If you will look at page 51 you will see that use of nickel in alloy steels has fallen very substantially. Whereas alloy steels has gone ahead, nickel has been driven out by various competing metals and occupies a far less important position than it did before, but because steel activity in the United States reflects the general level of activity, it happens also to reflect the level of new consumption, not only in the steel field but in all fields.

Turning over to page 52 you will see a chart on the progress of stainless steel. Stainless steel has now become the largest single outlet for the use of nickel and you will see that stainless steel production has grown - so also has the use of nickel, since one of the most important varieties of stainless steel contains some eight per cent of nickel. Nickel has not gone up as sharply as stainless steel, representing again, competing forms of stainless steel as against nickel containing varieties but it has made an enormous contribution to the demand for nickel and it is a contribution which we welcome



particularly because stainless steel is used in a multitude of applications ranging from the trim, superficial, or let us say architectural type of application, to the highly industrialized application and the use of steel affords a great measure of protection to the stability of future markets for nickel.

On page 54 you will see the total consumption of nickel as related to the steel production of Canada and there again, starting at 1951, you will see that nickel consumption in Canada has gone forward more than steel production in Canada. There has been a very gratifying growth of nickel fabrication and nickel consumption in Canada. The Anaconda Brass Company started in 1922 producing a small amount of nickel silver. When World War II came along a large demand for cupra nickel, containing nickel, ran up as high as thirty per cent but there was no longer a source of production. The nation had to depend upon importation from the United States. That has lead to both Anaconda and Noranda in 1953 and 1954, going into domestic production of cupra nickel. It is interesting also because an appreciable proportion of production of fabricated nickel-containing products in this form is currently being exported. It is not only domestic output it also includes exports. The progress that we have made in Canada in developing





domestic uses for nickel I think is brought out by the fact, if you will start from the end of the War, Canadian nickel consumption has gone ahead about one hundred and sixty per cent as compared with a total free world growth of about sixty per cent. You will know, of course, that there was such a shortage of nickel that I was afraid that our research staff and that our sales staff, was getting a little bit rusty. I got hold of a crowd here and I said "draft anyone from the United Kingdom or from the American organizations and bring them up here and let them come in and help in any fashion with the work you are doing" and a tremendous amount of effort and work was put in trying to see if there were any opportunities that we were neglecting for the expansion of use of nickel at home in Canada. Whether that effort is responsible for these remarkable marks of progress I don't know, but we are very gratified at the progress that has occurred. I don't know what the future will bring in Canadian consumption but my guess is that five years from now Canadian consumption of nickel will be at least fifty per cent over what it is now. Ten years from now, it will be up at least a hundred per cent. I don't know twenty-five years from now if it will slow up a little bit but we have come up with a figure of two hundred and

(next page 4997-)



fifty per cent from what it is now. Ten years from now we think it will be up at least a hundred per cent and - I don't know about this twenty five year figure - I have to swallow a little bit - but we have come up with a figure of two hundred and fifty per cent. We have looked at the population trends - which I don't think mean a great deal - we have looked to the various applications and developments we are working on - and where those applications may fit in, in the future, and on the basis of the various things we have thought about, those are the figures the Staff have come up with.

Glancing over now to page fifty six, I would like to mention the progress made here also in the production of stainless steel. Canada was not a stainless steel producer until Nineteen forty six - the stainless steel market opened up primarily through the importation of stainless steel from abroad and, as opportunities to support local production of stainless steel were suggested, so the Canadian production of stainless steel started.

Atlas Steel entered the production - they started in a very modest way in Nineteen thirty one, in making just bars. In Nineteen fifty one they expanded their operation from the production of bars to the production of sheet and in Nineteen fifty four they got into the field of strip. I have been





told that they now are about to produce tubing. Another Canadian company engaged in producing nickel-containing stainless steel is Canadian Alloy Steel Company of Toronto. They started in Nineteen fifty five to make bars and flat stuff and there is also a significant domestic production of nickel anodes for building purposes by the Canadian Hanson and Van Winkle Company, involving mainly domestic use and a small amount of export.

Page Nineteen shows a table which indicates world production of nickel and brings out the figures for Canadian growth at one hundred and sixty per cent compared with world growth of sixty per cent -- fifty eight or sixty per cent.

Getting over to page Twenty two I touch on what the United States Government has itself said in regard to stock-piling programmes. One hesitates to comment regarding the problems of the American Government in building up a stockpile for the defence not only of the United States but for the defence of the world. It presents some very obvious and some very difficult problems to those of us who are in the nickel business, but as you glance over these quotations which are taken from the Department of Commerce Report which was issued a few weeks ago, you will see that that Department is of the view that the American Government is a good deal more relaxed



on the subject of the stockpile, and that they are more relaxed because more facilities exist in the world for the production of nickel than existed before and they exist in other parts of the world and can therefore give their production for any emergency. In addition, as every month goes by, there is much more in the stockpile and necessarily they are closer to accomplishing their objective. The most encouraging factor to us is the fairly substantial diversion which the American Government has made from her stockpile programme - in nineteen fifty five they took into the stockpile some twenty four million pounds less nickel than they did plan to take in that year and about half of that diversion -- eleven million pounds, was nickel produced in Canada, which went to the customers of Canadian producers - rather than going into the stockpile as we thought it would, at the first of the year.

The American Government has decided to divert from the stockpile twelve million pounds for the first quarter of nineteen fifty five - I don't know whether or not they will repeat that for the remaining three quarters but if it is, it would be reflected as twice as liberal a policy in diversion from the stockpile in the year nineteen fifty five as the year nineteen fifty four. All of this is most encouraging to us because that helps our





customers and it makes it easier for us to keep them as our customers. It means that much less in their struggle to find substitutes which, if they once find them, they will hesitate to switch away from again.

The Department of Commerce report is also helpful in that it assesses or endeavours to assess the future demand and supply position, as the Department of Commerce sees it - and they have been having meetings with other important industry associations in the United States - which consume nickel and they set out a conclusion at page twenty five that for industry to consume nickel at the levels of supply anticipated upon the completion of stockpiling, nickel consumption will have to increase by fifty per cent, or, in other words, nickel suppliers will have to sell over three hundred million pounds of nickel per year, as against the current consumption rate of slightly over two hundred million pounds. They think that this leaves a great deal of elbow room for future expansion and developmental work and then they make the very significant observation in connection with the various subsidized productions which the American Government has been assisting - they say that for the long term therefore - that is, after Nineteen fifty seven - developmental and expansion proposals should be judged on technical performance



and economic grounds rather than on the basis of nickel availability in the future.

Chapter Nine deals with what we have already touched on very extensively -- the efforts that we are engaged in in development and research -- I might say that we spend approximately seven million dollars a year on development and research - and that includes the development and research which we do here in Canada - mainly on our mining and processing methods - and the market development and research. We spend approximately the same on market development and research as we spend on exploration, in looking after additional sources of nickel. We refer also there, to the function of the rolling mills in the United Kingdom and in the United States -in the development of new alloys and an illustration of the great contribution of these rolling mills was the original development of the Monel metal- which was used for a great many applications before stainless steel really got its start. Everywhere that we went to sell Monel metal - after a few weeks or working on it we found that we were followed by a Stainless Steel salesman. We have been virtually driven out of the market in selling Monel and have been supplanted by Stainless Steel - which contains nickel. We might say we are very happy about that - and even though they have been





able to provide the world with a product cheaper than we were, they have contributed to our future development because Stainless Steel Industry is much the largest consumer of nickel in the world, therefore, it has rebounded to our benefit.

As we bring out, some seven hundred and fifty men, one hundred in Canada, over three hundred in the United States and Central and South America, and some two hundred and fifty in the United Kingdom, and some sixty on the Continent, are engaged in development and research work, and in the education of consumers of nickel on what nickel has to contribute. We have had the benefit of the proposals, research and opinions of men, most of them scientists and engineers, whom we could persuade to come with us - in an effort to inform the industries, of the portions of the world in which they live, of what Canadian nickel has to contribute to the things which they use and by using one of the multitude of nickel alloys which we have developed. The bibliography which is on the desk here is a simple bibliography of the type of technical publications which our Staff has produced on the subject of nickel - it is simply the first page of the publications which are now current, but if all those publications were piled up they would stand this high!



However, this is for the purpose of your Staff--they might like to glance over this material to simply get an impression of the character of the scientific information which is produced by our Development and Research Staff, and is provided to customers - consumers of nickel in all parts of the world.

Hand in hand with that development work we maintain a most effective distributing and selling organization - we have over a thousand employees engaged in selling, marketing and serving our customers - one hundred and fifty in Canada, eight hundred in the United States and Central and South America and some one hundred and fifty in the United Kingdom. We have large distributor organizations functioning in some seventy two cities in the world! I want to mention here that in Toronto we have our own distributor unit which was formed in Nineteen forty one, and to that perhaps can be attributed the progress that has been made in the use of nickel here. That company started out in Nineteen forty one with total sales of one and a half million dollars - it has wound up the past year with total sales of ten million dollars. Of course, in order to sell nickel it has to sell a lot of other things - it sells valves and fittings, aluminum and stainless steels - so as to have a rounded line for its customers, but this Canadian investment has grown from one and a half million to ten million





dollars. Its employees have increased from fifteen to one hundred and thirty employees and the size of its warehouses here have multiplied ten times. I am glad also, to announce that because of the satisfactory progress which the Staff of this unit has made, and the unit is run in the name of Alloy Metal Sales Company - we are starting today with building a new warehouse in this city which will cost us approximately one million dollars.

The same sort of expansion is occurring on the part of our other distributors in Canada. Our distributor in Montreal - which is not owned by this company but is independent - has established a new warehouse there - and the same sort of expansion and development of new warehousing has taken place in Vancouver, on the part of our Vancouver distributors.

We have all over the world, about eighteen thousand customers. We have seven hundred customers in Canada - some seven thousand five hundred in the United States and the rest elsewhere. Each of those customers, of course, has his own customers. In our development, in our sales, we spend much time approaching the customer of our customer, rather than our own customer because that is where the initiative and the incentive to buy nickel containing products comes from. It is our job both in Canada and



all over the world to get as close as possible to all these customers and succeed in widening their knowledge of nickel products and to bring this knowledge to all existing customers and to any spot in the world, where we think there may be a prospective use of nickel.

The next chapter deals with our competitors and there is an appendix to the brief which gives a great many examples of the competition with which nickel is faced. Nickel competes with chromium - with molybdenum - with wood - it competes with other ways of doing things. A piece of metal can be designed in a way containing no nickel whatsoever so that the strength will be exactly the same as it would be if it were designed in another way, containing nickel. Our competition - as you will see from reading these examples - is of a most complex and difficult nature. We have lost a great deal of business - some of the charts here will show you how we have been affected. Fortunately because of the broad basis of application, these losses have been compensated for by increases in other directions. However, we hate to lose out in any direction and we are doing everything we can through all of our market efforts, to limit losses such as these, as well as expand in new fields.





We detail the competition we have with non-nickel containing stainless steels and alloys in the field of constructional alloy steel -- I might mention also the role of prices in competing markets. I think I might just quote a word or two on this subject from page thirty four of the brief :

"Ever since embarking on its extensive research and development programme after World War One, for establishing a wide base for use of nickel, International Nickel has consistently endeavoured to stimulate sound growth of nickel and new uses by a policy of stable and reasonable prices. The object has been to minimize fluctuations so that consumers need not be concerned with the prospects of frequent price fluctuations in their planning and specifications. The realization that nickel prices are not likely to be dominated by short term considerations, to the detriment of the necessarily long term planning of consumers has been an important factor in the progress of the nickel industry".

We have made adjustments, we have tried to make these adjustments as slowly as we could - and we tried not to follow rising costs until we were sure that the rising costs were here to stay - if we couldn't compensate for them by re-vamping our mining and



metallurgical operations. In considering prices, of course, we have had to consider the impact upon our customers in their production and their competition with other metals - and the effects on their long term planning.

The company is continuing this long-established policy which has been in effect since prior to nineteen twenty nine. Our prices have changed; the price went up six cents in nineteen fifty one and three and a half cents in nineteen fifty three. In nineteen fifty four prices advanced four and a half cents. At the present time the price of nickel is about eighty six per cent above the average prices we realized in the two years before the War. That is not as high as the phenomenal increase, of course, in copper, but it is a fairly reasonable relationship to the price increases for some of the competing metals. If you glance at Page Thirty Seven you will notice the price of molybdenum is sixty seven per cent higher and the price of chromium is up eighty two per cent.

While you are open at that page, thirty seven, you will notice also how nickel has fallen relative to chromium and molybdenum in the field of alloy steels, representing the competition that we have been having in that direction.

Page thirty nine turns to comparative tariffs, and we point out there is a completely un-





necessary import duty of one and a quarter cents on the importation of nickel into the United States and also that the type of nickel that is being produced in Cuba - not being advanced to the refined form - is free of duty into the United States; hence this is an obvious potential hazard, since there is a duty for some nickel, it may become in the interests of other parties to retain the duty permanently, or perhaps to raise it, as a means of assisting the market development of nickel coming from non-Canadian sources.

We mention also that some of the metals with which we have been confronted in the United States are free of duty. Molybdenum and Chromium are produced in the United States, or refined there, and therefore two of the metals with which we are competing will not have the duty problem as we may have. We have been troubled with duties in many countries. The present French Government has meant that the duties have now again been temporarily removed - and we feel that because of efforts to protect local manufacturing on the Continent we will find that it probably will not be possible to export runs from, or produced in our United Kingdom plant - for example, on to the Continent, in view of the determination there, quite naturally, that they should be maintaining their own manufacturing. To protect these manufac-



facturers, there will probably be a re-imposition of duty directed against special sheets and so on and alloys, made in other parts of the world. This chapter also covers a duty that is a serious problem - that is the American duty of some four cents a pound on copper imposed in Nineteen thirty two. We unfortunately had all our eggs in the American basket. The Canadian demand for Copper was negligible, and with the imposition of this duty we lost our markets completely and we had to laboriously establish new market outlets, and relationships in other parts of the world. Even after the duty in the United States has temporarily been suspended, it is on such a loose basis that we have not felt justified in building important outlets in the most logical market we have - the United States - because of the presence of this duty-threat. The tariff now is technically two cents, which has been suspended until July Nineteen fifty-eight.

The final chapter deals with the very privileged subject of taxation. It refers to the obvious advantage of the metal producing industries if the economic situation can be as stable as possible and that possible tax be as moderate as possible against competition which we fore-see we will be confronted with at different times.

I think I have spent too much time in reviewing this Brief - I am afraid that I am so





close to it that I may have lost my perspective a little bit and been a little too enthusiastic about it, but if you do get time to read this brief you will see reference to a great many things that I have not touched on and a much better expressed elaboration of these things, that I have not touched on. I really appreciate being able to make this presentation and I think this industry has a great future -- what our predecessors have done is a great challenge to those of us who have the job to do ahead.

One other thing, not in the brief, on which I would like to touch -- that is the place which Canadians occupy as the owners of International Nickel. In nineteen thirty, twenty nine per cent of the common stock of International Nickel was owned by Canada -- fifty one per cent was owned in the United States and twenty per cent was held elsewhere -- principally in the United Kingdom. I don't know what happened - either Canadians lost confidence in their own company or what happened - but Canadian ownership in the company dropped to eighteen per cent in nineteen forty six. Maybe the stringencies of the war meant that people just didn't have any money - maybe that was the reason, but that is what happened.

When this company merged with the Mond



Nickel Company in nineteen twenty nine, there were some pretty far-sighted people who decided that they had better face facts - because previously the company had been an American Company with a Canadian subsidiary - it was obviously absurd; but, in the reorganizing of the company, the parent company became a Canadian company, quite properly, and the British and American Companies quite properly became subsidiary companies. The shares of the company were promptly listed on the Montreal, Toronto, New York and London Exchanges - they were traded in Amsterdam and on various other exchanges and they have been available for anyone who has wanted stock in the company - but the Canadian ownership which fell from twenty nine per cent in nineteen thirty to eighteen per cent in nineteen forty six - since then as a result of a steady upward trend, has reached the point where it has got thirty seven per cent of the common stock of the company.

Now, this indicates the company's record which doesn't necessarily tell the whole story, some of those holders could be newly formed American Trusts - functioning in Canada - which are Canadian companies but the underlying ownership of them may largely be in the United States, but I suspect that is pretty well counterbalanced by the fact that there are





a lot of holdings which undoubtedly appear in the names of American financial institutions where the real ownership is in Canada. We found, when we were engaged in foreign exchange restrictions and the like - that looking through the veil as best we could, there was quite a substantial amount of non-recorded Canadian ownership held in the name of American business, and in many cases; so that I would think this figure of growth from eighteen per cent in nineteen forty six to thirty seven per cent - and I see the Sheet every three months - that there has been an increase in Canadian ownership over at least the past five years. I am confident that this trend is going to continue to move upwards; it is hard to tell the number of people in Canada who are shareholders of International Nickel because there are so many people who hold their shares through brokers but looking at the number of accounts, there are forty one thousand, five hundred shareholders in Canada - compared with twenty four thousand in Nineteen forty six, and compared with thirty eight thousand in Nineteen thirty. So we evidently weren't a very popular investment for a while but we are very happy that Canadians have decided to do something about repatriating their position in this company.

THE CHAIRMAN : We are extremely grateful to you. I thought when we started this morning that



I had a lot of questions I wanted to ask you but I think you have answered them all. Certainly you have answered the question that has occurred to a number of people in this country, about further processing of materials here, very fully, and we are very grateful to you for the trouble you have taken to explain that situation, or explain the extent to which your nickel company does carry on its complicated and varied operations in this country.

I am a little upset to see you stealing my thunder in this country, producing these process charts, but I must tell you that there is no patent on them and you are free to do so, of course. I do hope you won't go into that business professionally here - it would worry me quite a bit.

You also dealt - at perhaps a little less length - with your pricing policies, which were commented on at one of our other sessions. I don't want to ask any more questions now because I feel you have covered all the points I had in mind. I really feel that this has been an extremely valuable presentation as far as this Commission is concerned and I suspect that it contains a lot of information that the public generally will be most interested in having made available in a more general way. All





I can do is repeat our gratitude. Thank you  
very much indeed.

MR. WINGATE : It has been a pleasure  
to be here.

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Recess  
After Recess  
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THE CHAIRMAN: Can we come to order  
now gentlemen ? It is a great pleasure to welcome  
Mr. Thayer Lindsley this morning, and Dr. Bateman.  
I had the pleasure of a talk with Dr. Bateman's father  
the other day, whom everybody familiar with the mining  
industry in Canada, knows very well and we were very  
pleased to see him looking so well.

Mr. Lindsley I think before we proceed  
I will mark your submission No. 135 for the record,  
and if you would like to take over now we will look  
forward to your remarks.

MR. LINDSLEY : Mr. Chairman and  
Gentlemen - I am honoured that you have asked for my  
views on the future of certain aspects of mining in  
Canada. I may say that my remarks will be quite  
brief as the operating of our associate company has  
been covered largely by the submission of the Metal  
Association, which I believe, was presented yesterday.

As a preface to my remarks I would say



that my work, for many years, has been chiefly in the field of exploration for metals, so with your permission I will confine myself to that particular field.

THE CHAIRMAN: Thank you.

MR. LINDSLEY : I will then refer to paragraph one regarding the customary methods of exploration that have prevailed ever since mining started in Canada, and I would say that it is carried out along three broad lines; First, nation-wide exploration by large well-financed groups with the purpose of finding new districts. Recent advances in geophysics, both on the ground and from the air, are playing an increasingly important and successful part in this work.

Secondly, the customary methods of exploration of individual prospectors and companies exploring sections that appear attractive based on current information. I might say that over the last fifty or seventy five years, this method has been quite successful in the gradual development of adjacent areas - favourably situated areas - and even extensions of old belts and thus we owe a great debt for this past method - which has been explained in more detail in my submission.

So then with your permission I will come to the method that we have favoured, on page two





paragraph three, and by this method or philosophy of exploration which our own associated companies have found effective, it involves a careful, patient, long-continued study of well-known districts. It can best be carried on by becoming established in a district with an operation, either large or small. Although most of the exposed outcrops have already been fully tested in the principal districts, we believe ample opportunities still exist for finding substantial ore deposits. I might say there is a very good illustration of this in the Sudbury district - that illustrates how careful study and research and knowhow has been fruitful in opening up new ore bodies. The twelve major mining districts to which this philosophy applies are listed in Appendix One to this submission. Furthermore, there are two dozen other districts that offer attractions for future mineral developments. These are listed in Appendix Two and do not include the twenty or more important gold districts that some day may receive renewed attention.

I might say that one thing that is particularly useful in this method of going into old districts, is the fact that Canada is largely the Precambrian type and we have learned over the years that the Precambrian type is more persistent in depth than deposits of more recent periods, and that



is one outstanding advantage for Canada, this widespread development of the precambrian type.

Now, coming to my conclusions, I may say that the long range outlook for mineral discovery in Canada is one of great promise for reasons that are listed below. However, we must also foster and cherish the conditions and principles that have made possible the growth of this great industry in Canada in the past - so that in the future new mineral discovery will continue at an accelerating rate.

With your permission I will read out these different factors that have been helpful to Canada -- helpful to the mining industry - and possibly I will amplify one or two of the points. The prime factor of government in Canada, the encouragement of free enterprise, and the vigour of the people of this nation - they all contribute to one of the healthiest investment climates to be found in any country in the World.

Secondly, from capital gains taxation and specific tax advantages, such as the three year exemption on the income of new mines coming into production have greatly contributed to the flow of domestic and foreign capital into the Canadian mineral industries. Prior to World War Two, development of the North was spearheaded by the search for gold.





Today northern development is predicated on base metals and rare metals requiring much greater investment in plant and transportation. For this reason consideration should be given to special tax concessions for corporations engaged in northern development.

Transportation and hydro electric power have greatly assisted the growth of the mining industry in the more settled areas, but lack of these facilities in the North have retarded the development of a vast area. For example, in view of the enormous expenditure on "Dew Line" along the Arctic coast, could not a railway to Pine Point on Great Slave Lake be justified on the basis of northern development and national defence? Could not the Northern Transportation Company, a Crown corporation, be used more effectively as an instrument of northern development. In connection with the establishment of this Dew Line my engineers tell me it may be quite a helpful factor in opening up the North country - in making these outlying regions quite accessible. Then gentlemen, I want now to deal with the financial aspects relating to the mining industry and the Toronto Stock Exchange, through its members, is playing an increasingly useful part in providing funds for development and production in new mining areas.



This Exchange has grown to be a very smart Exchange in dealing with industrial enterprises and has included a vast number of mining enterprises in its scope -- I would like to point out a similarity to the London Mining Market which for over a hundred years played an extraordinarily useful part in providing funds for development and exploration in the Commonwealth and in many portions of the world. They have played a very important part and I see signs that Toronto may become the world centre for the attraction of speculative capital in this special field of development and exploration.

I may add one point - that one of the great difficulties that we have experienced in the past, and my experience dates back to my first visit in Sudbury in eighteen ninety five, is the great difficulty in getting capital for the first stages of mining. In the exploration and development stages there are sometimes almost super-human difficulties to get capital for those stages, and I would like to remind the commission that if we have to have new mines some consideration has to be given to that factor - that is, the difficulty of getting finances for those two first stages. Particularly is this so, with the increasing need for base metals - there is a very much larger need - larger financial requirement for base metals and base metal industries





today than there was for gold; for the gold industry it was comparatively simple to find a fund for the initial stage.

That, I consider, an important factor in the future of mining in Canada. Just before I come to Number Five, I would like to mention one more point which is, that fortunately, conditions in the recent years have been particularly favourable and we have seen extraordinary expansion of development and exploration - far beyond anything we have seen in the period before the war.

Now I would like to point out that over the last fifty years the mining fraternity in Canada has acquired a special "know-how" in the exploration for Precambrian ore deposits. The growth of knowledge and information in Canada has for a number of reasons advanced more rapidly than in any similar group in the rest of the world, even more rapidly than in the big country to the south and there may be a call for Canada to play a part in the developments in many foreign countries later - in coming years - because of the special know-how of the mining fraternity.

Next a most fundamental factor and perhaps the most important factor of all - are the human resources of energy, skill, talent and a high degree of vision - which Canada possesses to an extent excelled by no other country.



Finally there is no dearth of markets for our metals. Our great and friendly neighbour, the United States, has an immense and expanding need for metals of all kinds. The enormous post-war industrialization of Europe - has developed an insatiable appetite for metals; and the more backward nations throughout the World, as they develop and improve living standards, will, inevitably, turn to Canada for their supply of deficient metals.

It seems clear that for a generation or more Canada will be the Mecca to whom all the World will turn for an enormous and increasing demand for raw materials. If I might expand on that point, I think in previous years we have gone quite far afield and we have been brought to a rapid halt through the difficulty of interesting capital and placing funds in foreign companies, and we have more and more found out that there is no country that is more highly regarded than Canada in the view of investment capital but, in particular, it is very difficult to get risk capital. Risk capital is a vital factor in the early stages and risk capital is particularly timid. They are reluctant to go even if you can point to very substantial outcrops and attractive conditions, you find capital extremely timid to go to any portion of the world except in Canada. It seems to





me that Canada is going to find that a particular load will be placed on her to supply the world's needs and it seems to me that Canada is going to play a major part in supplying the needs of the world for the coming generation, until the backward nations become recognized as a good place to place capital. So it does seem that we have a great responsibility and, on top of that, I can see an increasing - an extraordinary increasing demand for metals. Even the most conservative groups - financial groups - that before the war were rather reluctant to even consider the mining industry, as that industry has always been the tag end of any industry - it is considered the most risky business in the world - and we have found that conservative capital has not been very sympathetic to our problem.

That brings up an additional point that I can see facing Canada. The need of the world is increasing so fast - particularly from the point of view of per capita consumption; taking copper as an illustration, I think in Nineteen fifty five the per capita consumption in North America was about eighteen or nineteen pounds -- now highly civilized parts of the world like Western Europe, I haven't got the exact figures but is close to one tenth of that -- today. That just illustrates what a



terrific pressure is going to come on Canada - far beyond what any of us realize here - in the coming years. Every nation now wants to raise its standard of living and become industrialized and the foundation is more metal. It seems to me that there is one instance where Canada is going to play a great part in stimulating additional growth. Whether we can fulfil all these demands I don't know - it seems to me almost as though the expansion of need is going beyond our capability. I would like to bring out one point in regard to that, and that is that we will have to consider a great many marginal deposits that we have dismissed, and we will have to review them over again and they may play a part in providing this amazing need for metals that we are facing from the World.

Another factor that has just been brought out by Mr. Wingate of International Nickel is that by-products are going to receive more and more attention than in the past. We paid little attention to them in the past - we came to the chief metal and just disregarded the rest, but ore seems to have a great many by-products and they are going to receive a great deal more attention.

I would like to mention before concluding my remarks that Canada is blessed with abundant cheap power and that is going to play a very useful





part in the processing and refining and extension of these ores that heretofore may have been sent to other countries, and they will be processed and refined more and more.

I would like to draw particular attention to the special metals - rare metals - there is a very wide field there for Canada to process and refine them right here in this country. I would like also to bring out one point that is not covered here - that while listening to the remarks of the previous speaker, I was just compiling notes of what Canada has done in the past in the way of providing the world with important mineral districts and I can see in past production and in reserves in that single district of Sudbury well over five hundred million pounds of ore, and taking a very rough figure on the average grade of the nickel and copper and miscellaneous products - the figures generally are simply staggering, from one single district -- I think my Associates confirm these figures -- at the present time the price is around sixty five cents for nickel and around thirty five cents for copper -- which come to figures that exceed fifteen billion dollars and that is in past production and reserves. That far exceeds any mineral district that I know of in the world and it is an indication of what Canada can do in the future.



In conclusion, I repeat that we must foster and cherish the conditions and principals that have made possible the growth of the mineral industries; we must, where possible, further process our materials before sending them abroad in order to develop our skills and industries; and finally we must have the vision to conquer the barriers of the north and create new enterprises wherever minerals may be found.

Gentlemen, I greatly appreciate this opportunity of bringing our views before you and if there are any questions we shall be very happy to answer them to the best of our ability.

MR. GUSHUE : There is just one question I would like to ask - for my information Mr. Lindsley, on page two , at the top, you refer to the method or philosophy of exploration that you and your associated companies have found effective and you say this involves becoming established in a district with an operation - does that mean with an active mining operation and then extending your surveys from there ?

MR. LINDSLEY : Yes.

MR. GUSHUE : What is meant by the word "operation" ?

MR. LINDSLEY : It is not entirely necessary but it gives you a better insight if you





have an operation - even a small one in any particular district.

MR. GUSHUE : I see.

MR. LINDSLEY: To gradually know all those elements that enter into the picture. I may say that after fifty odd years of mining, you begin to acquire a feel - or a sixth sense - that seems to be necessary - but we all have great confidence in all of these three major districts as a fertile field to supply the needs of the world.

THE CHAIRMAN : Thank you Mr. Lindsley - I was going to ask you on the basis of your very wide experience not only in Canada, but in mining all over the world, whether there weren't areas of competition that Canadian mining industries should keep an eye open for - from other parts of the world. I think you have pretty much answered that though, in your remarks in your very re-assuring way. We are very grateful to you and I would like to say in conclusion as I said to Mr. Connell yesterday when I thanked him for the way in which we were welcomed and shown around United Keno, in which you are interested, that we were most appreciative of the pleasant time we had in Yellow Knife - another area in which you have considerable interests. We also appreciated very much the brief which the Northwest Power Industries, presented to us in Victoria. Thank you very much



Mr. Lindsley - we are most grateful to you.

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THE CHAIRMAN: I would like to welcome Doctor W. F. James - it is very nice of you to come here this morning Doctor James and we hope that we have not inconvenienced you a great deal ?

DR. JAMES : No - but you kindly agreed that I should not have to submit a brief, which I very much appreciated, so I imagine you are going to cross-examine me now ?

THE CHAIRMAN : I think we are very interested in your views about the probabilities of further expansion in mineral exploration and development in this country and anything you care to tell us we would like to hear ?

DR. JAMES : Well many of the things I had in mind Mr. Lindsley has already mentioned. One thing that is very close to me, however, is the Far North areas and what I have come to know of them during what is now becoming a long career. I have spent a lot of time there and I am delighted that the commission has had a chance to travel to the Far North and see what the difficulties are. Mr. Lindsley referred to the fact that -- I will put it in my own words -- to go into a brand new country for great distances and make a discovery that is marketable





or extend discoveries, which discoveries are generally made by people who know the country fairly well -- that means that the country must be travelled by numbers of people, many of whom do not make any discoveries. Elaborating a bit, techniques have been developed for making discoveries subsequent to the initial discovery in the district - we will say the initial one is an accident, the latter one is the result of knowledge obtained and techniques used.

Now, years ago I saw Mr. MacDonald up there - he remembers that controversy that was running between Mr. Corless and Mr. Campbell oh - thirty years ago - twenty seven years ago - as to whether the mineral resources of the country had all been discovered or not. Well it looks rather futile at the moment that we had all that discussion; I myself have many times thought that all possible ore bodies in the district were found and subsequent events have proved that wrong, so now I am swinging over to the other extreme - I just don't know what the limit is.

There was an instance in the Noranda mine - being a fairly large mine, well developed, having a great production and everybody in the district knew there was nothing north of the Horns Falls - by a series of events the Quemont Mine was found



and I presume that the feeling of the people around Quemont and Noranda, is that these two constitute all the ore that might be found. I am quite convinced in my own mind that subsequent events will prove them wrong, so I am gradually coming to the conclusion that there is really no limit.

A recent one you all know about is the Geco property -- the Geco property was found in an area that most technical people agreed wasn't a possible area at all, and I am sure that as a result of the Geco discovery in years to come - maybe soon and maybe later - a great number of other properties will be found.

Now prospecting when I started was a poor man's game -- a man got a few hundred dollars together and he went out and laboriously trudged the country looking for indications of minerals with the possibility of finding a mine. The obvious ones have been discovered we will say, in many cases. It is now a rich man's business - a few hundred thousand dollars - a couple of million dollars spent on finding and developing a property is now a reasonable sum - it used to be as low as in the hundreds. This points out - as Mr. Lindsley remarked - the necessity for risk capital at this stage. Somebody - either the public or large corporations - must provide that - or we are





soon going to run out of good new mines - - we must provide extensive capital to find these mineral deposits.

One other thing I mentioned was close to me, is the Far North areas which I don't think we have adequately occupied. This includes even the Arctic Islands. I don't think we can say we own any certain area - and that did apply perhaps to the Northwest Territories a hundred years ago -- unless we do something about it. I think in that case the government can be of some assistance. If you think of all the benefits we enjoy by living in say Toronto - we pay for them in the way of income tax and various taxes. The people who work and live in the Far North countries - and the corporations that operate there pay similar taxes to what we do and I think there is an inequity there. It costs them more to live - expensive freight into that country - and they must come out for necessary holidays. You were up at Yellowknife and you saw what it means for a man to bring his wife and two or three children out to visit the old home in Ontario say, - it is just almost impossible. Well such a man pays the same income tax that his brother who lives down here on the old farm pays; I do think that is an inequity and that points up what I have referred to in



the matter of corporations. You have seen these operations up there - much of the material had to be flown in at more cost. The Northern Transport Company -- I don't know if Mr. Lindsley knew I was a Director ----

THE CHAIRMAN : I was going to say - are you not a director of it ?

DR. JAMES : He was needling that a little bit -- but if Mr. Lindsley knew - by charging lower rates we find it difficult to get along - it does cost money to move freight into these far northern areas. I do think that people down here nearer to civilization, should bear some of the expense of providing the amenities and necessities of life for the people who live in the north. Whether the easier method of doing that is by charging them less income tax if they live so far away, I don't know. That is something that financial people like you will have to work out - but there is one other thing-- in the matter of technical people, we are always engaged in looking for such people and in my own time, when you got out of school you had to go hunt up a job -- now beginning about this time, the companies will be besieging the few students in geology and mining at the various universities. Part of the attraction now is of course, that wages for such people are much higher than they used to be. In my own time seventy





dollars a month on a geological survey was considered quite a good wage.

THE CHAIRMAN : You got paid more than I did.

DR. JAMES : How much did you get ?

THE CHAIRMAN : Sixty five.

DR. JAMES: Well I had an M.A. - maybe that was it.

THE CHAIRMAN : All right.

DR. JAMES : But today they are paying more money, and I do think the companies will have to pay still more to qualified technical people in order to attract them to a career that they think may enable them - if that is possible under the taxation scheme - to obtain a reward.

Those are some of the things I have in mind and others that Mr. Lindsley briefly covered, but if you have any questions to ask me, I would be glad to answer them to the best of my ability.

THE CHAIRMAN : I would like to just follow up on that last point Dr. James -- we have heard a good deal from one end of the country to the other about the needs, or the expected needs, for more and more highly trained people --

DR. JAMES - Yes.

THE CHAIRMAN : In all walks of life.



In the mining end, we have heard a good bit about the shortage of geologists and mining engineers. It has been suggested that people are not interested in going into mining any more -- is there any truth in that ?

DR. JAMES : Well at the risk of being adjudged senile, I would say that the present generation seems to be less inclined to go to difficult places than they were years ago. Notwithstanding that, there are still quite a few men who would go provided the rewards were sufficient. But I don't know - perhaps we are getting a bit soft in this country.

THE CHAIRMAN : Don't include Mr. Lussier in this - he isn't soft - we can't keep up with him, but he thinks the rest of us are getting soft.

DR. JAMES : Well life is much easier of course - and young men don't care to leave the fleshpots.

MR. STEWART : What effect do the new aeromagnetic techniques have ?

DR. JAMES : Well I could quote Mr. Wingate on that - he gave a very good discussion on that - we do eliminate large areas and they do point out areas that are worthy of exploration. This





technique has been vastly improved since it was started as I remember it -- in Noranda in the early Twenties when it was very far from perfect. We will admit that they are not perfect yet but they have very much improved and I think that during the next ten years they will be still more improved - I only hope they are and I do think that we could cover large areas of country and open up some interesting places in which detail work can be carried out. I think it is pretty important.

MR. GUSHUE : You think that the horizons now are much wider than they were even thirty years ago ?

DR. JAMES : Oh yes -- due to the airplane of course - it has revolutionized the matter of exploration and prospecting. They are larger and I might say much safer, than they used to be -- and much more dependable. There is just no limit. I would like to see what can be done in the case of the Arctic Islands -- I don't know just what the economics of development of that area will be -- but I think we should be in there, even if it is not too economical at the present time - and it is now quite possible to operate at any distance with aircraft.

MR. GUSHUE : You think it is important to do something with regard to the Far North



that would overcome the disadvantages and hardships and so on ?

DR. JAMES : Well it is a matter of more than sovereignty -- we should not just say we own all these lands.

MR. GUSHUE : Without doing more about it ?

DR. JAMES : Yes, going into the Pole for instance, I believe that the idea in the first instance was that every country owned an area of the pole bounded by meridians at either side.

MR. GUSHUE : There is still some doubt as between Quebec and Newfoundland as to who owns part of Labrador --

THE CHAIRMAN : Please don't start that here!

DR. JAMES : I would imagine that Mr. Gushue is a little biased on that subject.

MR. GUSHUE : Oh not at all -

DR. JAMES : I happened to be in the middle of that Mr. Gushue;--- in Nineteen twenty nine we found some iron and then we noticed the rivers were flowing to the north and we realized the new Quebec concession wasn't too much use to us.

THE CHAIRMAN : Thank you very much Dr. James - we are most grateful to you for coming today - we appreciate it very much.

Hearing adjourned at 1.10 p.m.





Hearing resumed at 2.40 p.m.

THE CHAIRMAN: I think we can come to order now gentlemen.

Mr. Stewart, before we begin, I would just like to say to you how extremely grateful the members of this commission are to you and to the Canadian Bank of Commerce for the study on industrial concentration which you have made, and which you have presented to the Commission as a contribution to the work upon which we are engaged.

This is a very valuable addition to our studies and to our accumulation of material and we can't begin to say how grateful we are to you. If you will now proceed with your commentary we will mark your submission No.136 for the record, and we will be pleased to hear from you.

MR. STEWART : Thank you very much Mr. Chairman for your very kind remarks and in thanking you, I do wish to say and to repeat my appreciation for the assistance which I received from Mr.W. S. Lougheed, Consulting Economist of the Bank.

Now with your permission I will continue and if there are any questions which you or the members of the Commission wish to ask afterwards, we will do our best to answer them.



I am pleased indeed to comply with the request as outlined in your letter of July 18, last year, to give my views concerning changes in present policies which I think may be desirable in the interest of Canada's national development. I have interpreted your request to mean that my personal views be given at this time and I have governed myself accordingly.

I might add that the study I recently submitted to the Commission entitled Industrial Concentration - An Examination of Industrial Patterns in the United States, the United Kingdom and Canada deals in a technical fashion with a phenomenon in industrial growth and it is not my purpose to deal specifically with this presentation.

I should however like to refer briefly to the Industrial Concentration study at this point to note that at one time I held the view - possibly a popular view - that concentration in industry was increasing and that for the future this trend would continue. Our analysis does not bear out this view, and I am now conscious of the variations in the pattern of concentration in different industries; and also aware of the difficulties of measurement and even of definition. I shall refer again to this topic at a later stage in this brief.

From the commercial and the industrial





point of view we have come through an extremely interesting and unusual period in Canadian economic history. We have witnessed the emergence of an unusual combination of economic factors that has given to our economy an impetus unrivalled in our economic development. It is not my purpose in appearing before this body to catalogue in full the events nor to attempt to rank and grade the positive factors influencing our growth up to the present time. This I am certain already has been done for the Commission in far greater detail than the scope of this submission would allow. There are, however, in my opinion three or four factors that have been extremely influential in encouraging growth in our economy up to the present time and I propose to give these factors some consideration in contemplating the years ahead.

We have witnessed an unusual pattern of capital investment since the end of the war in 1945. The break-down of capital formation is available and in any event I do not propose to take this time for analytical detail. What is of significance is that capital investment has played an important role in the maintenance of the high level of business activity that we have experienced during the past decade. A good proportion of this capital has been of the private variety and this certainly implies that a



number of decisions have been made justifying the investment of funds in various economic activities from coast to coast.

We have experienced an interesting decade of relatively heavy capital expenditures in resource development and in such projects as pipelines. During the same period we have witnessed a major expansion of what popularly has been called secondary industry - an expansion which has involved sizable capital investment.

As we look to the years ahead it seems to me that the aggregate of capital investment will not be the only important factor; the pattern of investment will be equally as important. This year we have seen capital investment reach a figure of six billions of dollars. This level of investment, together with high consumer spending, high exports and imports and so on, has resulted in a Gross National Product of some twenty-six billions. Any considerable reduction in capital investment (all other factors being constant) would seriously alter the level of the Gross National Product. Any increase in the Gross National Product from twenty-six billions to say thirty billions likewise implies a significant increase in capital investment. If we assume no appreciable change in the purchasing power of the





Canadian dollar this means that investment decisions must be even more venturesome in the years ahead. Whether they will be or not will depend to a great degree on the economic climate within which they must be made.

I suggest, however, that the pattern or nature of investment would be as important as its absolute quantity. The available evidence indicates a growing reliance on secondary industry as a medium of employment. Our labour force is in the process of expansion and in the years ahead we are likely to see some marked shifts in its complexion. If primary industry through increased mechanization becomes increasingly productive with a concomitant decline in employment, then secondary and service industries will likely become relatively more important. This well may be especially true of the Prairies and the Maritimes. This leads to considerations of markets (domestic and foreign), consumption and distribution, which are beyond the scope of this brief. But I raise these points to indicate the complex inter-relationships that exist.

A year ago I took the opportunity to examine briefly the question of competition as it applied to the Canadian economy. At that time I noted the revival of a buyers' market and expressed



the view that we must consider this change in economic climate in relation to our views about competition.

In contrast to a sellers' market, a buyers' market involves competition from foreign suppliers as well as increased domestic competition. In our economy which is heavily dependent on foreign trade this means, in addition, competition of our exports with other suppliers - native suppliers and/or other foreign exporters.

In the course of my remarks a year ago I said that, and here I quote "there seems to be a belief that business - small or big - can, should and does operate in an atmosphere of perfect competition. Because of existing conditions of mass production, indigenous geographic characteristics and the growing elasticity of substitution and the like, we are in process of change. For example, substitutes are now available for nearly every product which once offered an opportunity for monopoly: new synthetic fibres for cotton, wool, linen, jute and silk; other fuels for coal; and a whole range of new ferro-alloys or alternate base metals for the relatively few original grades of iron and steel. The Canadian consumer now has a diverse variety of choice for goods and services which gives to competition a universality that it never before possessed."





When we try to look into the future, inevitably we suffer from imperfect knowledge: a contributory reason for this imperfect knowledge is that official statistics do not provide adequate information. This is in no way a reflection on such excellent organizations as the Dominion Bureau of Statistics. They provide general purpose statistics and are not primarily concerned with shaping their data to fit the needs of economic analysis. This is illustrated in the problem of defining an industry for the purpose of gathering statistics and for the purpose of analysis. A plant may be classified on the basis of the principal raw material used or of the principal product turned out. It is very difficult to think of any other workable basis for the assembly of such statistics; yet paint and wall-paper are classified in separate industries, are in the closest competition and indeed could be viewed from one point of view, as being in one industry.

Another problem of definition focuses on multi-product firms in an industry. One or two companies may from the point of view of persons employed or total dollar value of output appear to dominate the defined industry. Yet many if not all of their products are in various degrees of competition with other specialized yet smaller firms in the particular



industry in which in fact they compete.

When we come to the question of price and price levels another field of examination opens up to which I can only make brief reference. There is unfortunately very little analytical material available that deals with the Canadian price structure. Even the current predilection for model building has to a great extent escaped publication in Canadian literature. When an example of monopoly price is sought (with reference to the free segment of the Canadian economy) would the example hold for all phases of the cycle? Is price the basic criterion of monopoly? And a companion question centres on the significance and effects of price leadership.

In the area of competition I would think it useful for the commission to give its views on the meaning of competitive prices - not in the text-book form, hedged by assumptions of one kind or another, but rather in terms of the Canadian economic structure. This would be most helpful to business generally.

This does bring me to a consideration of future policy and I reaffirm the position I took a year ago that - and here I quote - "while restrictive trade practices should continue to come within the purview of government supervision the yardsticks that are used require careful re-examination". I go along





with the general principle so well stated by the Minister of Justice in his address to the American Marketing Association in Toronto about a year ago that quote "to protect the liberty and right of free citizens generally the law imposes in a free country certain limitations upon the acts of free citizens... If a minute fraction of Canadian citizens could by private agreement control the production and/or the distribution and/or the prices of any commodity in general use and/or prevent their fellow citizens from setting up in business to supply such a commodity they would obviously be interfering with the freedom of their fellow citizens. That is what the Parliament of Canada thought in 1899 and in order to protect the citizens' right to free competition it passed the first legislation making such actions illegal."

The Americans possibly even more than Canadians have been concerned with concentrations of power. From the early days of the writing of the Constitution any form of power seemed to invite legislative and administrative authority to combat development. The British on the other hand express publicly less concern with industrial concentration although there appears to be developing a public debate on monopoly in that country.

The people of Great Britain are becoming



interested in the question of industrial patterns and in the House of Commons less than a year ago, that is February 24, 1955, Mr. Thorneycroft, President of the Board of Trade observed "We are dealing with conditions in which a whole range of restrictive practices has been deeply interwoven in the British industrial system, not recently, but over a long period. It is right that we should seriously ask ourselves why it is that men should devise these complex restrictive arrangements. I believe in the main they devise them, not out of greed or out of a desire to amass profits.. I think that in the main they devise them out of fear - fear on the employers side of the full vigour of competition, and fear on the workers side of working a man out of a job. "That is the end of the quotation.

As one British economist has put it "new kinds of tribunals, administrative or judicial, will not help unless they are provided with guiding principles".

Presumably we in Canada, as in the United States and the United Kingdom, must be guided by the general attitude of the public. As in all cases of this kind the attitude established or developed is at its best when based on an adequate knowledge of the facts.





The sporadic discussions which have taken place even during the past decade concerning the respective merits of competition and monopoly have not resulted in unanimity of opinion. I venture the view that the perplexity of the public is understandable, in part, because the dispute does not follow the normal lines of political division, and, in part, because the experts themselves appear to be divided, or, at best, uncertain about what the available evidence proves.

I do not think in the case of the Canadian economy that there is any need to squabble about the fact that despite the difficulties of accurately determining concentration, some concentration exists in many industries. The big question is whether this is a bad or a good thing and if bad can anything be done about it.

It is possible to establish a model of perfect competition - a market in which no single producer or consumer can bring about a change in price - and attempt to force producers to conform to the model. The question is, of course, whether this is in the public interest. On the other hand, it might be more effective for policy-making purposes to examine the kind of competition that exists - imperfect competition - and to devise measures of



control within this framework if this is what is wanted by the public.

We then must look at the situation as it exists - not in the abstract - and in an attempt to inject some realism into the American discussion. J. K. Galbraith in his study American Capitalism - The Concept of Countervailing Power, from which I quote - "In the United States, in recent times, for most people the biological minimums of food, clothing, and even shelter have been covered as a matter of course. By comparison, the further wants are comparatively unimportant. Economists, nonetheless, have stuck firmly to their conviction that anything that denies the community additional goods or services, however casual their significance, is the greatest of sins. They have brought the mentality of 19th century poverty to the analysis of 20th century opulence." This observation has also some significance for the Canadian economy.

It is in the interest of the public that opportunity be afforded would-be producers to establish and maintain a business unit. The question immediately arises as to whether large business is making this impossible. The answer to this is, not necessarily. A distinction should be made between the artificial closure of entry in some industries





where certain business devices are used and which we must deplore, and the difficulty of starting up a new business in those industries where a high initial capital investment is necessary.

It is in the interest of the public as consumers that there is a maximum flow of goods and services. Does our present business structure utilize resources and manpower efficiently? This is a question which cannot be readily answered, if at all, but it suggests that concern over business forms per se is possibly transcended by considerations of productivity.

The Canadian economy has certain characteristics that distinguish it from other economic societies. Its geographic location and present population distributions suggest that the industrial structure should take on certain distinguishing characteristics. The commendable desire to achieve nationhood has invited certain forms of protection to encourage industrial growth. Also membership in the Commonwealth has resulted in certain trade arrangements not available to non-members. These conditions to a considerable extent have influenced the business forms and the kind of industrial structure we have.

Now we are moving into a period of technological development which in many types of



production will require sizable amounts of capital. Are we to be concerned by the fact that in one case a capital investment of one hundred million dollars is required whereas in another industry it is possible to add to the supply of goods or services by the investment of one hundred thousand dollars? Can we afford to use yardsticks that single out the large operation (monetarily large) for special attention? As the submission on Industrial Concentration to which I have referred points out, various degrees of concentration arise from economic and sometimes technological characteristics of the industry. We go all the way from industrial operations involving large amounts of capital per unit produced to industries employing large amounts of labour and comparatively small amounts of capital. If it is permissible to generalize, large business firms differ from small business firms (whatever the measure of large and small) qualitatively. The large companies are usually doing different jobs and using different methods.

There is a growing development towards establishing a wider diversity of products in many industries. This trend is bound to disturb established statistical classifications and to distort economic studies attempting a census count of the business





population. Moreover, this shifting structure is likely to involve serious problems of policy. It is conceivable that company "A" making one hundred products could be operating with respect to one product as a pure monopolist in the economic sense. Should this company be branded as a monopoly or only as a monopolist with regard to a particular product? And how with regard to the above illustration should one deal with a duopoly situation?

It well may be that we are yet too close to war-time and post-war developments to adequately appraise for the future the technological changes that have been taking place in recent years. It may be that pre-war definitions, in to-day's situation, are in fact of pre-war vintage. Technology has served to break down traditional barriers between industries and has stimulated the development both of the firm making a variety of different products and of projects encompassing separate companies not necessarily from the same industry.

The full implications of these changes for the purpose of economic analysis are yet unclear. Yet it seems to me that once a homogeneous product can no longer be assumed the concepts of commodity and industry require restatement.



One cannot explore readily and test the impact of technological advances since the statistics which would form the basis of such a test are not readily available. This invites repeating a truism, namely that statistics in whatever form should not be viewed as ends in themselves. However this suggests that in the light of the forces now at work - organized research, the synthetic revolution, heavy capital investment - the need for revised measures of industry census is becoming self-evident.

I raise these points, and there are a host of others that could be mentioned, to invite some consideration of the principles involved in dealing with the course of future industrial development. If we are to establish an elaborate set of rules of the game then these rules must be based not on past performance entirely but on our economic needs as we see them for the future. If we are going to carry on with the existing framework, then it seems to me that our methods of establishing, beyond doubt, "goodness" or "badness" must be re-examined in the light of changing economic patterns.

I am neither a lawyer nor an economist, yet I see the need for serious and detailed examination and a revamping of our traditional attitudes towards competition and "big business". We must





concentrate on developing our resources and improving our standards of living. The economic development which will accomplish these objectives ought not to be frustrated by a system of ideas some of which may be no longer relevant to the real world. Whether, for example, monopoly (or its variant) or certain other practices now viewed as detrimental to the good of the country are in fact contrary to the public interest involves questions cutting across the fields of economics and law. We are agreed that some kinds of restraint must be established but we must work in a complex area and it is to be hoped that the scholars in the two above-mentioned fields will continue their studies to the end that legislation will be developed to provide the necessary restraints and at the same time not punish the good with the bad.

THE CHAIRMAN: Thank you very much Mr. Stewart. I would hesitate to suggest that there is any reason, in this company, to apologise for not being a lawyer or an economist; you are still entitled to give us the benefit of your ideas.

MR. STEWART : I only mentioned that to indicate that I had no suggestion to offer as to the means to be employed.

MR. ANDREW STEWART : Mr. Stewart, on page two you say that we have witnessed the emergence



of an unusual combination of economic factors that has given to our economy an impetus unrivalled in our economic development. The rate of expansion has been relatively rapid in the last few years - is it your view that this is a rate which would probably not be sustained over a longer period of time ?

MR. STEWART : I hate to try and look at the crystal ball.

-MR. ANDREW STEWART : So do I.

MR. STEWART : It is difficult to see how we could continue our capital spending, which to my mind is the most important factor in the buoyancy that we have today -- it is difficult to see how we could afford to continue at the rate of about twenty three per cent of the gross national production and of course, as I have pointed out, my feeling is that the capital spending has been an important aid to the present buoyancy.

MR. ANDREW STEWART : Could you elaborate on that - Mr. Stewart -- why it may be difficult to maintain that rate of investment at twenty three per cent, or whatever it was ?

MR. STEWART : Well it seems to me to be very high in relation to what we have thought in the past to be a possibility and what is actually going on in other countries. The fact of the matter is, though, that we have done it, and we may





be able to maintain it.

MR. ANDREW STEWART : Are you able to single out the sort of factors in the recent situations which, if continued, would lead to the same rate of capital accumulation and growth ?

MR. STEWART : Well if you could take one factor that would over-shadow all others, it would be confidence. Confidence in our political stature - confidence in the continued growth of the country - confidence in the social order, but throughout the whole thing I would feel that confidence is probably the mainspring.

MR. ANDREW STEWART : On page three Mr. Stewart, after reference to the Gross National Product of twenty six billions, you have a sentence "If we assume no appreciable change in the purchasing power of the Canadian dollar this means that investment decisions must be even more venturesome in the years ahead." I wonder if you could elaborate on that statement ?

MR. STEWART : Well of course, we have gone a long way now towards the development of this country and as we grow then it seems to me, that there is an element of risk that will have to be calculated that wasn't there when the original decisions were made.



MR. ANDREW STEWART : You think the risks are greater in the present time than they were in the past - in the growth of the country, do you ?

MR. STEWART : As we grow in knowledge and develop to a greater extent.

MR. ANDREW STEWART: I am not sure that I follow that, but on page four you say that "if primary industry, through increased mechanization becomes increasingly productive with a concomitant decline in employment. . ." Is it an assumption in your mind that there will be an absolute decline in employment in primary industry or a relative decline?

MR. STEWART : Taking the basis of employment, I would say yes --

MR. ANDREW STEWART : Absolute ?

MR. STEWART : -- through mechanization - or if you want to use the current word "automation", it seems reasonable to suppose that capital investment might displace labour to some extent.

MR. ANDREW STEWART : Yes, but thinking of the primary industry as a whole, you don't visualize a rate of expansion in those industries which along with mechanization and automation will still lead to some increase in employment ?

MR. STEWART : Oh it could lead to





increased employment through increased development but what I am trying to say here is that increased development would not necessarily mean increased employment at the rate that we know it today.

To my knowledge of that - for instance the figures here in the matter of agriculture, I think the statistics show that in agriculture in Nineteen forty six there were one million two hundred and seventy one thousand people employed - in Nineteen fifty five that was reduced to a figure of eight hundred and eighty one thousand - despite the fact that the number of arable acres had been increased in the meantime.

MR. ANDREW STEWART : Yes, I realize that--that was why I asked you about primary industries as a whole because I know the situation in agriculture would suggest probably declining employment. But you don't think that for the primary industries as a whole - having in mind the mining industries and forest industries - the growth in these areas might result in increasing primary employment ?

MR. STEWART : It might - again I am using it in relationship to the productivity of the individual.

MR. ANDREW STEWART : We hear quite a lot about the meteorology of growth - this climate



in which decisions are made -- I am not quite sure how to get at this problem with you, but there is a presumption to which you subscribe I think, in the last page, so we are agreed that some kind of restraint must be established -- in other words, there is a presumption that private decisions may run contrary to the public interest ?

MR. STEWART : Oh, I think we can agree on that, yes.

MR. ANDREW STEWART : Well now it seems to me that one of the points which immediately come to mind, is, is there any way in which we can get at the sort of situations in which that presumption is more likely than in other situations ?

MR. STEWART : You are talking now of the decisions that might be made by corporations or individuals - which would not be in the public interest ?

MR. ANDREW STEWART: Yes -- assuming that that could happen, then wouldn't it be helpful if we could narrow the range of the problem by saying, well there are certain kinds of situations in which this is more likely to happen than in other kinds of situations - so we had better concern ourselves with those ?

MR. STEWART ; Well of course, as I cited the fact that I am not a lawyer nor an economist





but at the moment, as a layman, it seems to me that judicial decisions are made because of the fact that two or probably three or a number of people have reached an agreement even on a matter of production or price, or anything else, but no consideration is given to the fact, or the question, of whether those agreements are beneficial or detrimental to the good of the country as a whole, and as a consequence, I feel that the legislation as it now stands, requires revision, but I wouldn't care to be specific; at the moment, the decisions are based, as I see them, mostly on legal grounds, whereas the problem lies in the field of economics - not law.

MR. ANDREW STEWART: What I am getting at is this Mr. Stewart --- if there is the general presumption that there can be a conflict in this way - do we have to concern ourselves about all areas of the economy - do we have to be watching every corner of it, or can we narrow the problem down by saying that there are some kinds of situations in which this may need more watching than in others ?

MR. STEWART : I don't think I can answer that question. I have made what study I have made of the situation, along the general lines indicated -- so that I couldn't be specific.

MR. ANDREW STEWART : It would seem to be helpful if we could do that in some way --



MR. STEWART : Yes.

MR. ANDREW STEWART : On another general point - I wonder if you would care to comment on the question of timing in these things. Do we have to wait until after the event in order to take a look at what has happened and decide then if it is contrary to public interest and then enforce some penalties -- is there any way in which we could avoid that post hoc sort of treatment of the situation?

MR. STEWART : It seems to me that you have got to accept that measures must be taken after the event because I don't see how you can draw up a statute which would cover every conceivable case and of course, restrain or restrict business practices which would be to the detriment of the public -- they could happen in almost any line of business. The fact that I get concerned about is that just a simple agreement between a few people is a criminal offence, whether it is beneficial or detrimental to the public as a whole.

MR. ANDREW STEWART : If we have to wait until after the event, then presumably we are really concerned with the facts ?

-MR. STEWART : Yes.

MR. ANDREW STEWART : The crux of the problem then becomes, does it not, to have some criterion of public interest against which the precise





effects in a particular case can be measured ? - That is not a very easy thing to do - is it ?

MR. STEWART : No - of course, that is a case, as Mr. Loughheed suggests, where restrictive trade practices administration is supposed to be watching for matters detrimental to the public good, at all times.

MR. ANDREW STEWART : I am not purposely trying to avoid dealing with legislation of the moment. I am trying to get at the problem which seems to me to be an important one - in general terms. But thank you very much.

THE CHAIRMAN : Mr. Stewart, on page four of your statement you made reference to secondary industry and your sentence reads: "Available evidence indicates a growing reliance on secondary industry as a medium of employment." Do you mean by that statement that you think secondary manufacturing will probably become relatively more important in this country ?

MR. STEWART : Oh yes.

THE CHAIRMAN : Would you care to give any views on that subject ?

MR. STEWART : Well if it isn't going to become more important in the economy of the country then I hate to throw my vision too far ahead as to



what will happen to this country - if we are just going to deal in natural resources of the country because, in dealing with them, to a considerable extent we are dealing with wasting assets. As we extract them -- except in the case of fishing or in the case of lumbering - over a period of years they may be replaced -- but otherwise they are irreplaceable. As the population grows to take care of the development of these natural resources and they are wasted to the point where they no longer exist, then I am afraid we are into a rather chaotic situation. I think that is rather an exaggerated picture but at the same time that is the way I see it, looking to the long term.

MR. GRAUER : Do you think the trend will need the assistance of more extensive or higher tariffs, or will it come about at least partly as a result of the general growth of the country ?

MR. STEWART : Of course, we in this country are signatories to the Gatt Agreement. The Federal Government have indicated, I think it is a popular belief in fact, that the country should have as free trade as possible - the other democratic countries are, at least, giving lip service to the freest possible trade and it is a most desirable thing. If we can reach that end, then there is possibly no need for protection, but if we can't





enter the other fellow's markets in the same way as he can enter ours - then we probably have to think about tariff protection.

MR. GRAUER: It should be a two-way street, you think ?

MR. STEWART : Yes.

THE CHAIRMAN ; There is one other question I would like to ask you -- I don't think you have touched on it this afternoon, but we have heard in our Hearings from time to time, reference to control of industries by non-residents of Canada, and I recall that you had some remarks to make on the subject at the time of your annual meeting. I wonder if you would care to give us the benefit of your views on the subject ?

MR. STEWART : Well I am rather glad you brought that up Mr.Chairman - because I am afraid my remarks at the time of the Bank's annual meeting were misunderstood and to keep the record straight, with your permission I would like to read them -- it won't take a minute -- I said "the past year has brought increasing expressions of concern regarding the degree and kind of control of Canadian industry exercised by foreign companies. They have not been made with the intention of disparaging the very welcome part played by foreign



capital in developing our reserves , nor the expert technical knowledge and the additional employment which it also brought. Those people who raise the question appear to be concerned over the exclusion of Canadians from various aspects of the business of these controlled companies, including participation as equity holders and as directors, while another aspect of the discussion centres on the fact that the financial operations of such companies are not always disclosed, except in integrated form, with those of the parent company. They feel that they are at least entitled to know to what extent branches operated in Canada, are contributing to the economy and whether, in the long run, the policies dictated by the parent company are in this country's best interests. Approaching the matter from a somewhat different angle, are those who feel that Canadians are not sufficiently venturesome in investing in shares, not necessarily in speculative ventures but in growth enterprises - the influx of foreign capital need not deter Canadians from sharing in their country's future".

I have been quoted in the papers as being in favour of the discouragement of capital coming into this country and of Canadian citizens being permitted to get shares in these companies. I want to make my position quite clear. I deplore anything





that savours of narrow nationalism.

THE CHAIRMAN : I think that is a very complete answer.

MR. GUSHUE : Mr. Stewart, you have expressed very grave concern about the attitude towards concentration -- are you referring there to public attitude or to the official attitude ?

MR. STEWART : I am referring entirely to the official attitude, - expressed and as administered under the Combines Act.

MR. GUSHUE : I see, you think that perhaps the wrong yardsticks are being used and that there ought to be some re-examination of those yardsticks ?

MR. STEWART : Yes.

MR. GUSHUE : Could you think of a better yardstick than "The benefit or detriment to the public good?"

MR. STEWART : No I can think of nothing better than that - only it is not being used.

MR. GUSHUE : Is it possible that your concern is about the question of the practices and procedures, rather than the substance of the law itself?

MR. STEWART : Yes - except that the Judiciary seems to feel that any agreement is a criminal offence - from the verdicts that have been brought out - whereas I feel that the public good



should be considered and that agreements, of themselves, are not necessarily criminal offences - because certain agreements could be to the public good, at large. Others could be detrimental.

MR. GUSHUE : Are you speaking there of the fact of the prosecution or the results of the prosecution ?

MR. STEWART : I think probably both.

MR. GUSHUE : Both -- perhaps they prosecute too readily ?

MR. STEWART : Yes.

MR. GUSHUE : And also in the end result of the prosecution.

MR. STEWART : Yes; And don't take into consideration those economical factors that enter into almost any case.

MR. GUSHUE : Do you think that possibly they stress detriment too much and benefit not enough, something of that kind ? Detriment or benefit to the public good ?

MR. STEWART : I don't know whether either comes into their consideration. I think that the fact that an agreement exists is sufficient to point to a conviction. At least, that is the way it seems to me.

MR. GUSHUE : Although you do agree that some law with regard to restrictive trade law or





Combines Act restraint of trade is necessary?

MR. STEWART : Oh yes, definitely.

THE CHAIRMAN : We are extremely grateful to you. This has been a most worth-while contribution to our efforts and we are very appreciative of all the hard work and effort that has gone into this presentation. Thank you very much Mr. Stewart.

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Recess  
After recess

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THE CHAIRMAN: Shall we come to order please ? As I said yesterday, when Professor Galbraith appeared before this commission, we had said originally that we would confine representations at the public hearings, to the representations of organizations with the exception of any people in academic life who had views which they would care to present to us. We were particularly pleased to have Professor Galbraith appear before this commission yesterday and I would now like to extend a particularly warm welcome to you Professor Bladen for coming before us today. I see that you are supported by or, at least accompanied by, one or two members of your department, and we are extremely pleased to see you. If you would like to introduce the members of your department to the members of the commission who haven't had the pleasure of meeting



them, they will know just how big a department it is.

PROF. BLADEN : Mr. Chairman, you were quite right in saying I was "supported and accompanied by" -- on my left side at the table with me is Mr. Stykolt, who is here to support me. He has been working on this problem a good deal in the last year with me, and is now working on a detailed study of his own. The others may be here, not so much to support as to attack, but that is welcomed in academic circles. Professor Keirstead, who was I believe at this table before me -- and with him is a member of his staff, Professor MacGreggor who will also appear with the Province, Mr. Eastman, Mr. Elliott, and Mr. Clark - Sociologist, who has seen fit to appear even at this economic discussion, and Mr. Hood, who is ours not yours. I think those are all who are here.

THE CHAIRMAN: You are very fortunate - that is all I can say.

PROF. BLADEN : We think so sir.

THE CHAIRMAN : Well then, would you like to proceed :

PROF. BLADEN : Mr. Chairman and Commissioners, I appreciate this opportunity to appear before you as an individual, as a professor of political economy representing no interest other than the public interest, as I conceive it. I thank you for permission to appear.





May I preclude my remarks on competition and monopoly by a comment on the role of the economist suggested by my appearance as an individual. In our system of government by discussion and adjudication after argument, it is right and proper that the cases of the parties concerned be put as effectively as possible. I intend no criticism of those of my colleagues who appear "ex parte": their role is legitimate and important. But I suggest that commissions of inquiry, administrative commissions, and possibly courts of law, should make more use than they have done in Canada in the last quarter of a century of the independent expert witness, called by the commission or the court rather than by any of the interested parties. This is, I believe, particularly important in proceedings related to the control of competition and monopoly.

In examining Canada's economic prospects it seems likely that you will have your attention directed to the growth in the size of the typical business unit and to the trend in some industries towards increased concentration. You may well then proceed to consider how serious a decline in competition is implied by these trends and how useful our Combines legislation may be for meeting the problems which may emerge. It is in this context that I wish to present in brief outline a point of view which I have developed more fully



in a paper written in collaboration with my colleague Mr. Stefan Stykolt, for publication in a volume on comparative law edited by Professor Friedman which will appear shortly. Copies of this paper have been made available to the Commission. In that paper Mr. Stykolt and I discussed the application of these ideas to one of the industries which have recently been prosecuted as a combine, and Mr. Stykolt is at present engaged on a more thorough study of another such industry. Studies of particular industries with special reference to their market structures and performance appear to us to be of great importance in determining the validity of the ideas here presented, in developing criteria for judging the essential competitiveness of an industry, in developing "judgment" in the use of the criteria, and in devising appropriate and therefore more effective remedies where the market is not sufficiently competitive. Seeking brevity, I may give the impression of dogmatism; I intend rather to suggest scepticism, and the need for much more study, I intend, as I said above, simply to present a point of view.

First let me state my belief in the importance of maintaining a "competitive" economy, and my strong dislike and distrust of monopoly. It is my belief that vigorous competition provides the atmosphere





in which progress is most likely to occur, so that Canada's economic prospects are better if one can predict a competitive future. It is unfortunate that the interest in "competition" as a concept for static economic analysis, as the condition in which existing resources are most appropriately allocated, and as the guarantee that prices will be kept down to existing costs, has distracted attention from the dynamic view of the British political economists, who were concerned with growth and development.

The case for competition in the classical tradition was based on the belief that the maintenance of an atmosphere favourable to innovation, enterprise, and technological advance was of paramount concern. It is in that vein that Adam Smith wrote "Monopoly, besides, is a great enemy to good management, which can never be universally established but in consequence of that free and universal competition which forces everybody to have recourse to it for the sake of self defence." It was in this vein that John Stuart Mill wrote "To be protected against competition is to be protected in idleness and mental dullness." It is in this vein that Marshall stressed "enterprise" rather than competition.

And Schumpeter asking what we mean by "competitive business", wrote "what we mean is a scheme of motives, decisions and actions imposed upon a business firm by the necessity of doing



things better or at any rate more successfully than the fellow next door ... it is to this situation to which we trace the technological and commercial efficiency of competitive business."

In the dynamic world "cheapness and plenty" flow from competitive innovation in technology and from accumulation. To maintain an atmosphere favourable to innovation should become an important objective of the combines administration; signs of placid acceptance of current technology, attempts to resist change, should, therefore, be considered among the most serious grounds for suspicion and remedial action.

Second, let me state my further belief that the Canadian economy is now, and is likely to continue to be, much more competitive than is suggested by most of the measures of concentration and studies of combination. The degree of competitiveness is not something that can easily be measured: some aspects of it can be measured, but not all, and the measurements of diverse elements cannot be meaningfully summed or averaged. One must resort to judgment, and particularly so since the problem may well be not how much but what kind of competition there is in a particular industry. My estimate of the essential competitiveness of Canadian industry springs from a consideration of three points, (a) while competition





provides the atmosphere for innovation, innovation is the most important source of competition in a dynamic world, and I expect continued innovation;

(b) the product of a monopolised industry may well be subject to the competition of other products and this range of substitute products is continually extended by innovation; (c) the long-run competitiveness of industry seems to me greater and more important than its short-run competitiveness. It is true that in the long run we are all dead; but Lord Keynes who popularized this quip, had no children. When we are concerned with Canada's economic prospects we are thinking of our children and our children's children.

This emphasis on the continuing competitiveness of Canadian business is not intended to suggest that there is no work for the Combines administration. What I want to suggest is: that its task is possible only as long as competition grows out of dynamic enterprise so that only deviants from a generally competitive pattern require prosecution; and that its work is useful only if it is sensitive in distinguishing the fundamentally competitive situations from the non-competitive. This I believe requires much more than the studies of collusion which it has made as a basis for court action. The forms of collusion may cloak, in some instances, a vigorously competitive reality; and the termination of collusion may mean, in other cases,



no increase in competition. We need to know more than who talks to whom. We need to know, for instance, on what the group can agree and for how long. Some agreements seem simply to register a market decision that would have been made whether there was agreement or not. Indeed it sometimes appears that the more vigorous the reality of competition the more formal - but ineffective - the agreement to limit competition. The more nearly absent the reality of competition the more complete the absence of formal collusion. We must get beneath the surface and study market structures, or rather, lest this suggest emphasis on forms, market processes and market performance.

Third, I believe that we must seriously consider how much competition we want, what kind of competition we want, and how long may be the Long run in which we want the system to be competitive. Simple criteria are not available, but it is clear that we do not want the perfect competition of the economic theorists' model - though some unguarded statements in the MacQuarrie Report suggest that we should. What we want is the kind of competition the classical political economists talked about but did not define. Their conception of the mechanism of the System of Free Enterprise was - as Professor Lionel Robbins puts it, a conception of something more rough and ready,





something much more dynamic than these exquisite laboratory models. The most useful investigations of the problem in our generation appear to me to be those by Professor J. M. Clark, who coined the phrase "workable competition" to describe the objective we seek. Essentially he is concerned with the effect of competition in limiting, or eliminating profit, and with the effect of this in turn on the process of innovation and accumulation. As competitors adopt your innovations, as competitors expand as you have expanded, the profits the expectation of which induced you to innovate and expand are reduced or eliminated. This Schumpeter referred to as the "perennial gale of creative destruction": Clark refers to it as the process of neutralization. Something less than and different from perfect competition may be necessary. Schumpeter argues, to provide a degree of insurance to induce innovational investment where other forms of protection are impossible. "Perfectly free entry into a new field", says Schumpeter, "may make it impossible to enter it at all. The introduction of new methods of production and new commodities is hardly conceivable with perfect -- or perfectly prompt -- competition from the start." So, similarly, J. M. Clark draws attention to the problem of time. "The problem is one of the relative speeds, of the initiator's gain, and of the neutralizing process



whereby rivals follow the initiator's lead and destroy his differential advantage as his action becomes standard practice. If an innovator expects neutralization to be complete before he has recovered the costs of innovation - his incentive vanishes." The perfectly competitive model, is Professor Clark argues, one "from which competitive progress would be ruled out -- either no producer is allowed to make improvements that reduce his costs below those of his rivals, or else the rivals imitate him, instantly, and eliminate his differential profit; competitive neutralization is so perfect that there would be nothing to neutralize." This is a point of view that requires serious attention; in Schumpeter it is stated, perhaps too strongly and dogmatically, in Clark it is stated with modesty, good judgment, and as a basis for inquiry.

The dilemma is this -- we need long-run competitiveness to promote innovation and to ensure that the public enjoy the cheapness and plenty which can be the product of such innovation; yet we need some mitigation of competition in the short run if innovation and accumulation are to be induced under a system of free enterprise. It is the old dilemma of security and progress: too much security or too little security are alike unfavourable to progress, while many of the real bases of security depend on





progress.

Recognizing this dilemma does not mean abandoning anti-trust policy. There are cases where the neutralization is too slow, where the gains from past progress are not passed on to the public and where further progress is not being made. These cases call for attack. The plea is for moderation and discrimination. Even Schumpeter, who had more sympathy with cartellization than I have, recognized that an all pervading cartel system might sabotage all progress, and explained that his argument did not amount to a case against antitrust. "It does show" he said, "that there is no general case for indiscriminate trust busting, or the prosecution of everything that qualifies as a restraint of trade. Rational as distinguished from vindictive regulation by public authority turns out to be an extremely delicate problem." It is particularly delicate because it is so difficult to provide yardsticks of workable competition. But if economists have difficulty in supplying them there is also, as Professor Adelman has said, a merchandising problem. "It is difficult to sell yardsticks to people who are trying to buy clubs". More knowledge and understanding of the competitive process in particular industries should help in developing better yardsticks. It should also enable those who wield the clubs to be more effective not only in the selection



of the proper victims but also in their punishment.

Fourth, I believe that the Canadian law against combines is sound but its administration fails to take advantage of what seem to me its peculiarly sound features. Some of these features are - (a) the law condemns combines which operate or are likely to operate to the detriment of the public; it appears to be directed at effects - not forms. (b) Recognizing that the Courts are not, and cannot be expected to be, skilled in determining economic effects and must therefore be concerned with finding collusion, the law provides for a screening of cases by the Restrictive Trade Practices Commission. It is the duty of this Commission to appraise the effect on the public interest of arrangements and practices disclosed in the evidence. It follows therefore that this requires the Commission to make very different studies from those which have become customary. They should be concerned with economics, with market processes and performance, and the realities of dynamic competition. They have been concerned with the search for collusion and the arrangements of evidence for prosecution in a court. I have heard it argued that their record of success in court shows the correctness of their judgment. But as long as the Courts will not go behind the forms of collusion





to assess the public interest, and as long as the legislature imposes on the Commission the duty of assessing the public interest, a record of successful prosecution is no indication of a proper performance of the Commission's duty. (c) The law provides that the Court may issue an Order prohibiting specific practices. This I had hoped was a partial return to the method of the first Combines Investigation Act of nineteen hundred and ten which provided for prosecution if practices found to be detrimental were continued. Even then there remained the possibility of prosecution under the Criminal Code for past actions which were clearly and seriously detrimental and which the parties concerned must have known to be detrimental. Unfortunately the Order under the new Act seems to be thought of as an additional rather than as a substitute remedy.

Two changes in procedure seem to me necessary if our present Canadian Act is to serve the purpose for which it was intended. First, the Restrictive Trade Practices Commission should take seriously its duty, to appraise effects: this requires an economic investigation of the processes of the markets in an atmosphere very different from that of a criminal court. Second, on the basis of the Commission's appraisal the Minister must decide what actions should be taken, if any; but this should mean more than a



decision to prosecute or not. I suggest that there may well be cases where the evidence of detriment to the public does not justify prosecution, but an element of doubt exists and some action is called for. In such cases the Minister might well consider calling into conference the firms concerned in an attempt to determine what changes in institutions and procedures are necessary to make competition more active, more effective, while still leaving it workable. It is in conferences such as these that the Board of Trade in Britain seeks remedies for doubtful situations brought to light by the Monopoly Commission. The Canadian Minister with a variety of "clubs" available, fines, restraining orders, tariff and patent revision, should not find it difficult to secure consent for any reasonable arrangement. Indeed only on the assumption that businessmen will accept reasonable arrangements has free enterprise any future, or the Combines Act any hope of success. A feature of the classical doctrine of laissez-faire that has too often been neglected is its reliance on the essential morality of man; this feature was emphasized in an early article by Dr. Overton Taylor of Harvard recently re-published in his book "Economics and Liberalism". The new leniency toward individual desires was closely connected with a new faith in the moral faculties of individuals and the goodness of human nature; it is





clear that Smith agreed with Shaftesbury that self-centred economic ambition is socially beneficent so long as it is limited, as it normally is, by the beneficent dictates of our moral faculties". The belief that profit seeking enterprisers shared the normal moral faculties of the community may, perhaps explain the attitude of Mr. Mackenzie King when introducing the first Combines Investigation Act.

"This measure does not propose to place the parties in the position of defendants in a criminal court, but treats them as persons whose business for the time being is being examined...to see whether or not it is being carried on in a fair and proper manner."

A return to that attitude might make our Combines legislation more effective in achieving its real purpose, "cheapness and plenty". I have already been identified in Ottawa in the press I believe as being engaged in drawing the teeth of the Combines investigation administration. I recognize that, to many, all this suggests that the teeth of the Combines administration are to be drawn, there is a quotation mark omitted at the beginning of this remark of Dr. Overton Taylor's, "to enable the wolves of business to fleece" the public with impunity. In fact I approve of sharp teeth for defence, but would like to improve our identification



of the vicious wolves, and to consider the possibilities of domesticating rather than eliminating them.

THE CHAIRMAN - Thank you very much Professor Bladen. I will mark your submission number 137 for the record and Dr. Stewart will start the questioning if he is willing.

MR. STEWART - I would like to say at the outset Professor Bladen that I am frankly not quite sure whether the Combines Investigation Act and the Criminal Code come under the terms of reference of this Commission and my questions really have a more general relation to the environment if not the climate in which a business may grow and expand and make its contribution.

PROFESSOR BLADEN - May I at this point sir, indicate that if that atmosphere is in any sense a competitive atmosphere and if it is the kind of competition that matters, then this commission cannot ignore the kind of legislation and the way it is at present being administered.

MR. STEWART - On Page 6 there is a quotation of Dr. Overton Taylor and I may say that one of the things that has struck me in listening to the evidence that this commission has heard is the general tendency to identify the interests of the group with the public interests. Would you suspect





that that is a general characteristic?

PROF. BLADEN - I think I would like that question made a little clearer. Do you mean that each group has considered its interest a public interest?

MR. STEWART - Yes. Is there not a general tendency for us to do that? The things which are beneficial to us, that we know of as being beneficial, we tend to assume would be generally beneficial. I say this because it seems to me that if we were to follow all of the things which are beneficial in particular cases we would not find that the general effect would be the same. You do seem to have that thought too.

PROF. BLADEN - No, my position is rather that the best way of forcing us into serving the public is by putting us in a generally competitive situation but secondly, my view is that if we could assemble the executives of an industry and could show them, with reasonable clarity, that the way they were behaving was not for the public good, they would not generally be anxious to continue in that way. The point that I have in mind with reference to the earlier Act, Mr. King at first in 1907 introduced his Industrial Disputes Investigation Act and the idea, or the most important ideas were publicity and



conciliation and the three-man board was set up. The first idea in going into the Combines legislation was to emphasize not only publicity but also conciliation. His Investigation Board was going to be tri-partite as I remember, and, only after examination, the group was shown that the procedures in which they were engaged were anti-social and that if they persisted in them they were to be considered to be liable for punishment. This was on the assumption that they are not wolves who are determined to fleece the public under any conditions, when domestication is possible.

MR. STEWART - I just wanted to get at the model atmosphere -- you have reference to Canadian law against combines being sound but that its administration fails to take advantage of what seemed to be its peculiarly sound features and at the bottom of page 5 you have reference to a commission having a serious duty to appraise effects. Now it is really this aspect of the problem that I think we are concerned with -- whether it be this commission or legislation committees, somebody is going to have to appraise these things. On page 1 then you refer to studies of particular industries with special reference to their market structures and performance which you say "appear to us to be of great importance in determining the validity of the ideas here presented





in developing criteria for judging the essential competitiveness of an industry," and so on. In other words, it really is the criteria then that we are looking for - following your reasoning.

PROF. BLADEN - I think it is criteria. I don't think we are going to find simple criteria but we are going to have to develop some judgment and that requires much study. If I may add to that, part of the difficulty is that the study of this problem has been neglected and for that I suppose I am partly at fault, I should have done more myself, but one has to recognize the difficulty of making private studies of this sort when the law exists in its present form. It is not easy to find out things and secondly one has to note that the kind of study made by the commission, has to some extent been vitiated by its punitive prosecuting character. In that atmosphere the commission, I submit, cannot find out what the real character of the industry is. It seems to me both the official investigations of the Restrictive Trade Practices Commission should be on a less formal basis involving a readiness to try and understand the economics and, on the other hand, I hope that more scholars like Mr. Stykolt will begin to investigate the particular problem of particular industries.



MR. STEWART - That is exactly the question I wanted to ask you. Whether in order to make basic studies required to develop criteria, the Commission was the best body to do that or whether it could be better done in other ways.

PROF. BLADEN - I think both have to be done.

MR. STEWART - Both? I realize it would be impossible to pursue these things too far but you use terms here "market structures" and "performance". Well obviously to get away from forms which are the anatomy of things towards the physiology of them and there I suppose performance is really more important than market structures would be. Would that be right?

PROF. BLADEN - Yes. I wonder if I could let Mr. Stykolt indicate what he is thinking of when he refers to market structures. He has been looking into these things rather more intensively than I have in the last few weeks. Is that permissible?

MR. STEWART - Oh yes.

MR. STYKOLT - Well, the structure of the market might take into account such a thing as proportion of sales of the commodity traded, accounted for by the largest firm or by the largest two firms or three firms. Its significance may be of this sort.





The body investigating might come to the conclusion that, even though performance of this market is adequate by whatever criteria selected, the structure is not. Perhaps the firm may, in the opinion of the body, have too much of a supply of this commodity and there could be some deconcentration without any loss of efficiency and there may be some action for decentralization of economic policy, so that this aspect of structure may be just as important, and has been in some American prosecutions, --as the mere matter of performance. There may be other aspects of structure that might be of interest and, let us say, for example, the accumulation of patent portfolios by firms which don't abuse the power yet which may be judged to be not in the public interest. There may be problems, again, with the entry of new firms and here again there may be no deliberate action on the part of the dominant firm or firms but the question of entry might indicate that some action ought to be taken with reference to this market and, similarly, other aspects of the structure. The structure might be quite as relevant as the performance of the firms in the market.

MR. STEWART - You heard the question that I asked earlier. Now what I am wondering is whether structure which can be shown fairly readily -- I



think much more readily than performance -- would provide a means of distinguishing the areas in which the commission might be interested or does it have to snoop around everywhere?

PROF. BLADEN - I would think that the present position where we do wait for a complaint is not so bad. If the public is being injured there are usually some members of the public who are being injured and they are likely to be vocal.

MR. STEWART - I take it then that your emphasis in the meaning of the term competition is in the matter of innovations. As I read through your brief I take it that you are satisfied that there should be an adequate pressure for innovations.

PROF. BLADEN - Yes . I look on the danger of monopoly as mainly the resistance to change and the attempt to get cosy in place of the gails of creative destruction.

MR. STEWART - You think for example labour unions may be helpful in this connection when it is necessary to look around for new ways of doing things?

PROF. BLADEN - They may, but I am not sure that they are not, sometimes, inclined to share the monopoly gains rather than help to disseminate them amongst the general public. A strong alliance





with the unions in a highly monopolized industry is not, in my opinion, the most desirable solution. I wonder if I might add one other thing which perhaps ought to have been written into this paper, that is I think there is some evidence that the Restrictive Trade Practices Commission is beginning to take more seriously its duty of appraising, let us say, at any rate, it is trying hard. I am not yet happy about the success of its attempts but there is some indication of change which is change in a healthy direction.

MR. GRAUER - I would like to have your further views on competitive economy which, at the top of page 2, you state you favour strongly. Further down in that paragraph you state that briefly, "the classical case for competition being built upon atmosphere favourable to innovation, enterprise and technological advance is of paramount concern." Would it possibly, do you think, mean something quite different from competition, at least as is usually thought of to achieve innovation, enterprise and technological advance? For instance one thing that occurs to me is that where you have big units you may have the case of one big unit where there would be competition but probably a type of internal competition. Just how far do your ideas of competitive economy go?



PROF. BLADEN - Well, firstly, of course, it is conceivable that there are other atmospheres. It has happened in the great advance that we have seen in the Western World has been in this atmosphere. It seems to have been a favourable one but there may be other favourable ones. However, my worry would be that a single unit would find it much too comfortable to continue unchanged. It is the job of an administrator of a great corporation to promote growth within different conditions of competition and you have your people each trying to do a better job than the others so that you can get rivalry, the essence of competition in other words, but I think the evidence of history has not been too favourable to the vigour of the corporation. It has not been subject to the same competition. The further point remains, of course, just as I say about the morality of the businessman, I would prefer to see some controls to make sure that the advantages of improved technology flow to the public. The danger would be that the wolves would be more serious if there weren't some competing wolves.

MR. GRAUER - Then on the question of the morality of the businessman, does economic history prove that the part of unrestricted competition with a large number of units leaves any particular





inisation of morality or, would you say that economic history rather proves that under those circumstances the competitor with the least scruples is likely to set the tone?

PROF. BLADEN - I would hate to set up as an authority on economic history for this purpose. I suspect you are more of an expert in this field than I am as an, ex-professor, but it is not I think so clear that the most ruthless always set the pattern. It seems to me there are quite clearly different industries, some in which there is a competitive drag downwards, and in others in which there was a competition that worked towards continual improvement. Again, I am not looking for free competition to solve all the problems. It is not only the Combines administration that I am concerned with, it is some other things. We have our factory laws, we have various ways to prevent the kinds of competition that are vicious as well as prevent restrictions of competition but again my view is, if the only reason people behave decently is because they are penalized if they don't, then we couldn't get on with the system. It is only because the patterns of behaviour that we are imposing are really accepted that they can be enforced.

MR. GRAUER : Yes.

PROF. BLADEN : That is my view.



MR. GRAUER - There are some things which have developed, recently at least, to a much greater degree than hitherto. One of these of course, is research and another is public relations. It was not so many years ago when the latter of these two, for instance, was not particularly observed. Now, each of them would have a tendency to affect one's idea of the competitive economy or the scope of it. I am having a little difficulty to just find out where competitive economy begins and ends. For instance, you could take your businessman, or the businessmen that you assemble for the purpose of pointing out to them that their practices were against public interests. It is not hard to imagine that businessmen might be figuring that sort of thing out for themselves, aside from the moral side of the case, the principle you have stated, because they realize from a public relations point of view it is not good business to do things detrimental to the public interest; so that you could have quite a cutting down of the evil of competition, as it is today thought of anyhow, and that is where I find it a little difficult to get precise on just what competitive economy is.

PROF. BLADEN - But the same attitudes would also, I take it, help in eliminating some of





the restrictions of competition. If honesty is the best policy, if morality has public relations value, that simply reinforces my point that morality is valuable in itself.

MR. GRAUER - But what I was driving at is that morality could have public relations value in a big unit of business as well as in several units. You don't have to have competition in the shape of several units competing in order to have that sort of thing come about.

PROF. BLADEN - No, but if then you are suggesting that we don't need to worry about monopoly I am concerned with the diffusion of judgment. We will become dependent on this one man who is in control of the monopoly and that I find hard to accept. To rely on that for the public interest is a little trying to me.

MR. GRAUER - Oh I am not trying to suggest anything, but in so far as I am suggesting something, the problem is darned difficult .

PROF. BLADEN - Nothing in what I have submitted is intended to suggest there is an easy problem there or that I have a pat solution. My worry is that too many people at present think they have a pat solution, that all you have to know is who talked to who. That is what worries me.



MR. GRAUER - You heard Mr. Wingate this morning, for instance, point out that in the case of nickel, you have competition from entirely different fields. There is an example of competition which I suppose is relatively recent because it puts such an emphasis upon research which is such a dominant aspect in carrying on business of that kind and which again throws a different light upon competition, so the difficulty I am having is to find just what this competitive economy is, but thank you very much Professor Bladen.

MR. GUSHUE - I think it is clear that you agree with the desirability or the necessity of an Act of this sort and your points are that the procedures ought to be amended and you suggest two changes in procedures on page 8. First, that the Restrictive Trade Practices Commission should take seriously its duty to appraise effects and then your reference to the Minister where your criticism is really that the administration shows faulty judgment, is too rigid and does not appraise effects. Is that a fair analysis?

PROF. BLADEN - Yes I think many of the members of this commission and of its staff are friends of mine and I don't wish you to think that a vicious criticism but, their job has changed with





the new Act. Before their job was presumably to ready the evidence for prosecution and put it before the Court which was to decide the public interest. Then it became clear that the Courts could not do this and now the new Act imposes a new duty. The trouble is though that the Commission has not yet changed the character of its investigation, hence it must ultimately face and carry out this new duty of appraising the public interest.

MR. GUSHUE - And if that took place, let us assume that it did take place, would you still suggest the reference to the Minister in all cases? I am rather thinking of the fact, and I had perhaps better explain this question a little, that the Minister would be under greater pressures than a properly constituted and properly acting commission and I was wondering if you would adhere to that suggestion in a case of that sort?

PROF. BLADEN - Here, perhaps, the bias of my birth shows. I was born in England and I am rather in favour of the English system that makes that a political decision and not an administrative one. I would like the commission to advise the Minister and I would like the Minister to make his decision as to what action he is going to take.

MR. GUSHUE - Whether to prosecute or not?



PROF. BLADEN - Whether to prosecute or not or to use any of the other remedies. I would like him to be responsible and answerable to Parliament for his decision in that regard.

MR. GUSHUE - So you would still like to see that feature retained.

PROF. BLADEN - Oh yes.

THE CHAIRMAN - We are extremely grateful to you Professor Bladen and Mr. Stykolt for this presentation and we are looking forward to seeing you a little later on. Thank you very much.

----Recess.

----After Recess.

THE CHAIRMAN - We were very sorry not to have the submission from the Saskatchewan Federation of Agriculture in Regina and we are particularly pleased that it was convenient for Mr. Brown, the Secretary-Treasurer, to present the submission to us here in Toronto which fitted in with some other business he had in this City. I will mark the submission number 138 for the record and if you would like to present it Mr. Brown, we are ready.

MR. BROWN - Mr. Chairman and Commissioners. I want on behalf of the Saskatchewan Federation of Agriculture to express their deepest appreciation for the kind permission in allowing us to appear here





on this occasion. Unfortunately it was quite impossible for us to appear in Regina, much as we wished to be present on that occasion.

I have no delusions as to the possibility of providing anything new to the Commission although we did hope that it might be of help to consolidate some of the general information which has been expressed in various ways in submissions, not only from our own Province or from Western Canada, but across Canada as a whole, because agriculture is faced generally with very much the same problems in principle at least, whether they are on the West Coast or whether they are down in the Maritimes. In summarizing I will say that we have not prepared a summary statement but the submission itself is a little too lengthy to read so that I will attempt in the best way I can, to present a reasonable statement to you and to be as brief as possible, and in doing so I am not adhering directly to the order in which the items appear in the submission.

I would like to take the various topics in somewhat this order. First of all, a general statement of the role of agriculture in the Canadian economy, (b) some indication of possible developments in agricultural production in the next ten, fifteen or twenty-five years and (c) what the problems are likely



to be and also which problems will prevent us from accomplishing the role which we feel that agriculture can best serve the nation; and finally under (d) I want to deal specially with the place of regulating bodies and I include non-governmental bodies in that, the place of cooperatives and their contribution to Canadian agriculture and finally the role of government as applied to agriculture. The Commissioners will have noticed that in our submissions we have made some reference to the national policy as it was known following Confederation and the developments which took place in Western Canada, the tariff structure which was established at that time and the contribution which we feel Western Canadian agriculture made to the building up and industrialization of the Canadian nation. We feel that in some respects that has been very substantial. There has been a great deal of evidence and writings on this subject which I think state very clearly the contribution which the exploitation of agricultural resources of Western Canada made to the development of this country. Our only reason for introducing this particular subject is that our country was developed with this national policy and we feel that the policy continued in effect up to somewhere around 1930. I do not suggest that we haven't got





elements of it appearing in the economy today because quite definitely we have, but I feel that around 1930 the role of Western agriculture as a frontier of investment for Canadian economy, ceased as an expanding role. I am not suggesting that it is no longer important - I just believe it is a constant one now rather than something that is increasing in providing the impetus which it gave to the Canadian nation following the years, approximately beginning around 1900, the beginning of the century on to somewhere around 1928. Our main reason for suggesting this is that we feel that the policy, even portions of it which remain with us today, still affects our thinking. It is outmoded and we think that there should be a complete revision of governmental approach to agriculture. In making this statement we suggest that a more realistic approach be taken having regard to agriculture. A new statement of its role which, I presume every citizen of Canada probably recognizes, but in order to develop the type of policy that we feel is necessary and to make the contribution which we are capable of making, we think it important that this role be stated and recognized. Under this heading we have suggested (a) the duty of Canadian agriculture is to supply food and other products which are capable of providing fibre and fats and



oils where possible to the nation at prices which are fair and reasonable to all concerned. We suggest as far as the Saskatchewan farmers are concerned, that they are not looking for extremely wide margins of profit. Neither are we looking for the things that happened to us in the 1930's which we don't expect will be quite as bad but we are concerned about the present position of the Western farmer, particularly the Saskatchewan farmer.

Under (b) we suggest a major role of agriculture is the contribution to the national income through export products which primarily must be from the west -- wheat of course, and other grain products and perhaps no explanation is necessary there.

(c) a market area for industrial products.

I have already covered this to some extent but I would repeat this statement from the submission that in 1953 Saskatchewan farm or farmers expended the sum of ninety-eight million dollars on farm machinery alone. Now, in the millions, the hundreds of millions and billions of dollars in which we talk of investment today, that is not very large but, on the other hand, it is a very substantial contribution to the machine industry, the farm machine producers in this country and it is a market which will continue and probably continue to grow for the Canadian farmer - if the





Saskatchewan farmer has the income of a sufficient level to enable him to make the investments which he should correctly be making.

Now we suggest that this role cannot be filled by Saskatchewan farmers, probably any more than by any other farming area in the country without clear recognition and a statement of the problems which agriculture is facing and, a concentrated attempt on the part of the entire nation to provide an economic climate which will enable the farmer to continue a reasonable level of prosperity. I would like, with the permission of the commission, to make one change in a paragraph on page 9. I only suggest this because, in the second paragraph at the top of the page, I am afraid our statement is not too clear and, if it would be permissible, I would like to substitute a paragraph with an equivalent number of words.

While the investment frontier role of Western agriculture ended with the late twenties, it was many years before any recognition of the fact was discernible in federal policy. Policy as applied to the Prairie agriculture became indecisive and largely ineffective in-so-far as the aggregate income of the Western farmer was concerned. Relief and rehabilitation policies of the thirties directed



particularly to maintaining people on the land combined with movement of people from urban to rural areas, substantially increased the problem of an already overburdened agriculture. Only with the new industrial growth of the past two decades has a more realistic adjustment of population taken place. I have referred in (b) to future developments in reference to agriculture generally and particularly to Saskatchewan agriculture and I noticed in Wednesday's Globe and Mail a statement by Dr. Galbraith which I think sums up the position of Saskatchewan agriculture. He wasn't speaking primarily of agriculture but he does cover our situation in my thinking. He says natural forces will play a largely passive role. Growth will be the result mostly of more extensive and intensive technological and more efficient utilization of resources which are already known to exist and to which there is already access.

Now I am suggesting, in so far as Saskatchewan is concerned, that our agricultural resources are at the present time pretty well all under production of one type or another. Now the degree to which they are under production may vary. We have, I believe, some sixty-five million acres, of which forty-five or so are under re-classification as being





occupied farm lands. The rest of it may be partially utilized for grazing or other reasons, particularly grazing however. Our development will depend on the demand, or largely on the demand, which exists for our produce and, assuming a satisfactory demand that is adequate we will say in terms of quantity and price and possibly stability, there are other requirements then to produce a maximum necessary capital to take advantage of the technological advances which might be made available to us. My suggestion here is contained in our brief that the extension of Saskatchewan agriculture will be made largely by the replacement of land and labour by capital and as we go on we make a fair degree of improvement in the capital situation and credit structure available to Saskatchewan agriculture at the present time.

I am now coming very briefly to the problems which we face and I can state that it is particularly one of instability arising from natural forces and also from unreliable or fluctuating markets and market prices from time to time. Now I think that is an old story to pretty well all Canadians by this time. We had experience in the thirties and we had our rising market prices during the war period. We are particularly concerned because of the falling market prices at the present time and



during the present period, during the past two or three years, we have seen very marked declines in the price of livestock, poultry, eggs and so on and I might say we are somewhat concerned about the market for our wheat and our grains. That is one particular field in which we feel we can go no further without government action in-so-far as the market is concerned. As many of you know there is a pretty fair quantity of grain in store at the present time. We are not anxious to attach too much significance to the present stocks but we are concerned about what will happen if our markets decline further and crop yields stay somewhere in relation to where they have been in the past five or ten years. It is particularly important I think to note that Saskatchewan farmers, particularly, and I am going to refer to the brief here - it is essential therefore since Saskatchewan farmers produce for export that production costs be such that they permit our farm produce to compete effectively in outside markets. As a large producing area this Province is further from its major markets than any other in the Dominion. Thus transportation costs figure high on income supplies and outgoing produce. In order to meet these costs for our export products, we must have either higher





market prices for our export products, particularly so we must have some way of meeting the cost price squeeze which is taking place at the present time; that is, the cost of production has changed very little for our farmers whereas prices have been going down recently.

Now there are a number of ways in which that might possibly be met and we are looking at the long-term period. One of the recommendations we make is a more realistic adjustment of the tariff structure of this Country. We realize that there is a certain degree of conflict between various industries and interests in regard to tariffs and I think the Canadian farmer, the Saskatchewan farmer particularly, on the average is quite willing to admit that there must be some give and take in this regard. However, on the other hand, his production costs of course can be reduced if the products are allowed to come in from other nations, in certain fields, for two reasons. First of all, I cite Japan because, at the present time, she is taking and in recent years has taken a very large quantity of Canadian grains and as a contrast, Japanese exports into this country are substantially lower. Now I am not questioning the ability of the Japanese to carry on in that imbalance of trade at the present



time but we are concerned about the future. We feel that some of the countries, particularly Japan, is a very large potential user of Canadian wheat and particularly we are very interested that she be able to continue in that position. The same applies to many other countries which have customarily been customers of ours. Some of them are now purchasing from other countries because of governmental assistance, currency exchange policies and so on, in which we have not been able to take part.

A further major problem with which our farmers are faced in this high degree of instability I think is his inability to plan his production for any great period ahead. We have none of the safeguards enjoyed by certain other industries and he has no outside source of income so to speak. As a labourer he has no unemployment insurance and there is practically no guarantee of income to the Prairie farmer in the long term. I know we have a yearly price on grain which amounts to a floor price but I maintain it is a year to year system and it does not provide any long-term guarantee so that he may plan his production accordingly. I would like to summarize very briefly the position to the farmer, taking the farmer's point of view, in these words and I am quoting from the submission again:





"Under conditions of uncertainty far beyond normal business risks, he is confronted constantly with the problem of allocating his resources to the production of a limited number of products. Because of the economic nature of agricultural production generally, the normal economic indicators, as employed by non-agricultural businesses, are of little value. Whether or not his production decisions have been correct, once having acted, the farmer has few means of further protecting his income against yield fluctuations and drastic price changes. He enjoys few of the protective devices of other phases of economic activity such as patents, professional acts, limited liability of corporate bodies, the income stability and continuity of owners and managers of corporate enterprise, the protective benefits of unemployment insurance, nor has he the bargaining power of organized labour.

"Under these conditions of uncertainty, the Saskatchewan Federation of Agriculture contends there can be no permanent prosperity for agriculture, nor can there be maximum development of the Canadian economy. By the very nature of the problem, it would appear that much of the necessary corrective action must begin with government" And I might add nor do we feel that there is permanent prosperity



for many other areas throughout the West and certain parts of Eastern Canada as applied to agriculture. Although we cannot speak of them with any authority we feel that the same conditions exist to a varying degree but we feel that the Saskatchewan farmer probably has the most intense hazards and extreme difficulties of any agricultural region in Canada. However, generally the principles apply to other sections as well. It appears in the very nature of these problems that much of the corrective action must come through government policy.

The Commissioners will see that now we have a brief section on the contribution of the Co-operative movement and I don't propose to go into that very excessively. You will realize that in the Province of Saskatchewan co-operative enterprise is at the point where it has reached a very important level in the economy of the Province. Market co-operatives of course particularly, wheat pools and the development of the United Grain Growers have now become an old story and their contribution has been going on for a great many years. Narrowing of margins and the increased returns to the producers has been recorded many times before. However, some other fields, particularly that of consumer co-operation which in the main includes a great number of farmers





and only in recent years business transactors, has become effective as a part in regulating business activity of the community. I would like to give one instance of a co-operative association that is a local association, which is both rural and urban, in the City of Regina and I refer to Sherwood, which is in the present time doing a business of approximately six million dollars per year. I would also like to add one further item here. In Canada we record this, in our wholesale co-operative, The Federated Co-operatives Limited; Forty per cent of the sales are now being produced within the co-operative organization and in connection with that statement the returns in dividends to the principal organizations is sixty-five per cent of the total dividend return based on that forty per cent of internal production. What I am suggesting is that the co-operative movement has extended beyond the retail levels into the distribution and manufacturing and, by so doing, have returned a much larger percentage of their gross sales to the principal organizations. We feel that the co-operative movement has done a great deal for Saskatchewan agriculture and citizens in general. Probably the most significant value which we attach to that and one which is quite generally overlooked, is that of the policing effect on certain private



businesses, particularly where there is a tendency toward monopoly, where co-operative organizations are able to take a particularly useful part. I would like also to suggest, in a lower income or risk-bearing area, that the return of co-operative dividends to the lower income groups is probably a major stabilizing influence, in that it returns what would ordinarily go into profits and, in other words, returns of dividends to people probably with the highest propensity to spend in the entire community. So much for the co-operative movement. There is one further remark I would like to make before getting into the next section which is included under government policy and that is the protection of the community. I would like to point out that the policies of high levels of employment and income which we accept as being extremely desirable policies are less effective in areas such as Saskatchewan, or possibly Alberta, in the more arid regions than they are in the more humid areas and I think that has some important bearing on the future development of government policies applied to agriculture.

Agriculture performs a four-fold role in the Canadian economy and I wanted to give particular reference to the first role with regard to the provision for the domestic consumers. We think of the





nearest approach to the classical idea of a competitive or perfect competition rather than, I think, as in this Constitution where we see what happens under conditions of near-perfect competition. We state that over the long run the balance of prices, despite the higher levels which have occurred for various farm products at certain times, on the average the consumer gets the benefit. This arises from differences in industry and, once again, we would draw a comparison between agricultural and non-agricultural types of production. The benefits of increased production in non-agricultural segments of the economy, we maintain disappear through higher wages and higher dividends whereas, if we expand production in agriculture, it is reflected directly in lower prices to consumers.

Inherent in this argument is the ability of most non-agricultural industries to curtail production during a period of recession whereas agricultural has a need to expand production. Even in times of comparative prosperity, market prices of many agricultural products may be depressed to certain unremunerative levels to the producer but beneficial to the consumer. We suggest in these circumstances we would have a high degree of competition in one industry, and a tendency towards imperfect competition and monopoly in the non-



agricultural sections and that the agricultural section of the community carries a very large percentage of the food burden through times of declining prices. We would also like to suggest that the same situation could occur, and does occur, during periods of high prosperity, such as we have at the present time and this is one of the things that alarm our group to some extent. Whereas we have probably the highest national income that we have ever enjoyed in Canada, there are certain sections of the agricultural community which are being adversely affected due to the fact that they are producing more than will be consumed and, in the absence of an adequate export market, they create a very difficult situation. I want to emphasize again that Saskatchewan farmers are not seeking excessively wide margins of profit - we are seeking prices which will give the average operator, which we have defined as an operator of a family-sized farm -- we maintain that in view of the contribution of agriculture that farmers may justly expect government and expect the communities to support them in establishing and maintaining economic policies and social policies, also if necessary, which will enable the operators with family-sized farms, to attain a standard of living and income expressed in





terms of goods and services over a period of years and expressed in stable incomes comparable with other sections of the economy. We feel that any failure to find practical solutions to these problems will result in difficult situations, not only for agriculture but will be reflected in the rest of the community particularly where industries, and I understand there is quite a large percentage of the population dependent on agriculture, especially in industries where industry is occupied in the processing or transforming or transporting of agricultural products. What we are suggesting in the policy stage, and we recognize that this may not be within the terms of reference of this commission, but we are suggesting that the government must develop a wider national policy with respect to agriculture and integrate its agricultural policies with part of the general policy with respect to certain subjects such as market, capital and other items which normally don't flow to agriculture, because it is agriculture itself. We feel that the farmer himself can do very little and I question just how much farm organizations can do without Government assistance in the face of expanding markets for farm products but, at the present time it is my understanding that some ninety-six per cent of all the wheat producing nations



of the world have Government controls requiring a regulation of production in many cases, but regulating either production or prices, or both. Canada I believe is one of the few countries in which there is no permanent policy of price support, including those communities which are so important to Saskatchewan and of very great importance to the other two Prairie Provinces.

We have made suggestions at various times as to ways and means of expanding and strengthening foreign trade in foreign countries. Our farm associations and organizations, I believe, are not yet convinced - I don't think they will be convinced - that there is not some means by which we can accept foreign currency at least as partial payment for our agricultural products. So far I believe our government has not undertaken any policy of this type with the exception of the extension of credit in one or two instances.

A further item in which we are specially interested is a national project. I refer to the St. Lawrence Seaway which, in our opinion, must be redeveloped for the national good, rather than the interest of any one particular group. It has been feared in some parts of Saskatchewan that there is a danger that one industry, or one phase of our





economy, our economic activity, may gain the benefit without similar advantages being extended to other industries and we feel that particularly in this phase of getting or overcoming this cost-price phase, that the St. Lawrence Seaway, when it is finally developed, may be of very great advantage to certain parts of Western Canada. After the experience which we have had in past years, we don't suggest that they are going to return again in total, but we do feel that if we consider the situation properly, some products from time to time will require floor prices and it has been the policy I believe to date, at least Government policy, that floor prices will be established from time to time as the Government deems it necessary and we feel it is absolutely necessary that this protection be given with a view to the farmer's ability to plan from year to year, as, in order to plan production we feel there is an absolute necessity for some system of a basic guarantee which may affect the farmer but once in ten or fifteen years, the further apart, the better we like it!. We feel there must be some adequate floor below which prices cannot go in order to prevent a complete dis-investment as we experienced back in the thirties. We also recognize that floor prices do not protect the producer against crop failure



and we have no particular suggestions to make in this regard. The Federations of Agriculture have requested the extension of the Prairie Farm Assistance Act to give some assistance in this regard. I don't feel that we need to mention it any further here. We suggest finally further measures to promote greater stability might be found through schemes directed to the orderly marketing of farm products. We particularly cite Producer Marketing Boards. We feel that such a protection might afford a solution to farm marketing problems and that the Government might be expected to apply the necessary aid and encouragement. We are becoming increasingly concerned about the availability of capital for further farm investment and, this is presented in our submission as Credit Need.

I think there is going to be an increasingly greater need for farm capital and that farm capital will increase the efficiency of Saskatchewan agriculture. It is therefore necessary that credit be made available under conditions which the producer can obtain credit and hope to repay within a reasonable length of time. The results recorded of farm production in Saskatchewan indicate that on the average the present type of credit extended in non-agricultural industries is probably quite inadequate for agricultural conditions. As a remedy to this





we are suggesting that we need a major emphasis system in which the major emphasis will be placed on the managerial ability of the producer rather than on the collateral security which he holds.

In Saskatchewan there are many large farms and yet the average is still under half to three-quarter section per farm producer, in most cases, and they don't consider the economic efficiency of the unit because many of these farms, quite a large number of them, are quarter-section farms and because they are quarter-section farms the farmer must accumulate his capital from his own production and it is quite impossible for him to expand his farm without credit. We feel where he has the managerial ability and integrity, that proper credit should be advanced on a little different system than is normal. We also suggest that repayment terms should be adjusted to crop and price conditions from year to year instead of the normal basis of annual fixed payments. We had a typical example in the last two years where in 1954 we had a very small crop of wheat and other grains of rather low quality produced on some fifteen million acres. These fifteen million acres produced a very low yield and of very poor quality. Now there was a year in which I would feel that the



average producer, if he had the type of capital that he needed to commence farming or to expand his operations, he would not have been able to meet the payments required. As a matter of fact, many were unable to meet payments to bankers under the present system and it created a bit of a problem. We feel that under that particular system, in that particular year, under the system which we advocate he may not have been required to make any payment or he may have made a smaller payment. Now last year we produced a very large crop of very high quality on 100 million acres less than we had in 1954. Normally, as we are advocating, he would make much larger payments provided we had a market for the products, which we haven't got now.

But under conditions where there is no market, there would have to be some allowance, I presume. Certain studies, I believe, were carried out by the Canadian Federation of Agriculture; they indicated that the probable long term interest return of invested capital in agricultural enterprises, is somewhat below five per cent or five and a half per cent, which is about our lowest rate at the present time. It was suggested that probably a lower rate of interest might be required.

Finally, we suggest that the Government should not increase and extend the application policy to





agriculture -- but that they should take a closer look at some of the recent developments in science and examine their possible application to agriculture.

In other words, we are suggesting that we require further research, not only for those areas which are presently being investigated, but probably in expansion of the area itself. Thank you, Gentlemen.

THE CHAIRMAN : Thank you very much Mr. Brown. This submission will be a valuable rounding out of the fairly complete story that we got while the commission was sitting in the three Prairie Provinces, and particularly in Saskatchewan. For that reason, and also because I know you are anxious to catch your train, we won't ask you any questions, but we are most grateful to you for this submission. We will now adjourn until ten a.m. tomorrow morning.

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Hearing adjourned at 5.30 p.m.  
to be resumed at 10. a. m. on 26th  
January, 1956.



Thursday, 26th January.

APPEARANCES :      Hon. Leslie Frost, Q.C.  
Prime Minister of the Province  
of Ontario

Dr. R. L. Hearn,  
President, Hydro Electric  
Power Commission of Ontario

S. M. Blair, Esq.  
President,  
Canadian Bechtal Limited.

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THE CHAIRMAN:      Mr. Prime Minister, I think it would be inappropriate for me to welcome you to your own chamber, but I think perhaps we might be allowed to say how delighted we are to have you with us this morning, and to thank you for allowing this commission to use this chamber, which has been a particularly nice place for our meetings.      We are looking forward with great anticipation to the presentation of this very excellent brief, which I spent a good part of the night before last reading, and which I know we are all looking forward to having presented to us.

HONOURABLE LESLIE FROST:      Well Mr. Chairman and gentlemen, it is a very great pleasure to welcome you to this chamber and to welcome you to Ontario. May I say that we have regarded the work of this





commission as an opportunity for us, not only to make the presentation of opportunities and problems to you, but also as a first class opportunity to re-assess our own position. You gentlemen, will to an extent, be the medium by and the purpose for which we accomplish that end. Now may I say that it is a pleasure to welcome the commission here individually - Mr. Gordon from an old Ontario family and one who has been prominent in the affairs of our Province really doesn't require a welcome - he is part of us in this Province. To mention the other members of this commission individually, I am very glad to have Mr. Lussier from Quebec here, -- if I omit titles and dignities I will ask you to add those yourselves. I may say that we have been long-time partners with the great old Province of Quebec and our relationships throughout history have been very fine indeed with your Province, sir. We have, by history and by geography, been partners over so many generations and I should like here to express our appreciation for the unfailing kindness and understanding of the people and the Governments of Quebec to their sister Province - the Province of Ontario.

Mr. Grauer of British Columbia, we are glad to have the opportunity of addressing this brief to you, and to the people of your Province, who are also great partners of ours, as are the other Provinces.



Mr. Stewart from Edmonton, now the wealthiest Province of Canada, we are glad to see, also. I have seen in my own day and public life, your Province come from what has sometimes been called a "have not province" - a term I don't like myself - to, I should say, the wealthiest province. It is a very great pleasure to see that development take place there and I hope that it may be extended over the rest of the provinces.

Coming now to Mr. Gushue, of Newfoundland, our newest partner, may I likewise extend a welcome sir? Your great Province goes back in history a very great deal further than does our Province of Ontario. One of your public figures down there, has never failed to emphasize the fact that the people of Newfoundland helped to ensure the independence of our Province --- in some of the difficulties we had back in Eighteen Twelve and thereabouts, we are very glad to acknowledge the kindness of the people of Newfoundland, which has always been shown to us.

Now Mr. Chairman and gentlemen, you are here in the Chamber of the Parliament of Ontario which goes back in history to a small building on the banks of the Niagara River, which is still in existence, where the first Parliament for Upper Canada met in seventeen ninety two. Here in this chamber you





are associated with the traditions and the history and the problems and the opportunities of our Province over that period of a hundred and sixty four years. I may say that in having the Commission meet here in the chamber, we have perhaps intentionally underlined the importance we place upon the assessment of Canada and her problems in this year nineteen fifty six, in looking forward into the future, as we can do somewhat uncertainly, to try and cover the problems and the great opportunities and the course that we should chart and take in the years which are going to be very important to our country.

Generally, in connection with this brief, I may first of all say that the writing is not mine - the ideas and forecasts are not mine to a very large extent, except this, that I have great confidence in the persons who got together in a fairly short time this survey of Ontario. Now I may say sir, that I was a little embarrassed that my name was the only name which appeared on the submission. However, the cover of this brief and the set-up is temporary and it will be printed in different form, at which time I will make it my business to see that those who took part in the preparation of the brief will receive the acknowledgment they should.

In introducing and presenting this brief to you, which will be explained later by some



of these gentlemen here and others whom you may want to call upon, may I just acknowledge this, the brief was prepared under the direction of Mr. George Gathercole, Deputy Minister of our Department of Economics, He was assisted by some very able young fellows, all of whom I think are here today. Mr. Farrell, the Director of the Statistics Section; Mr. Etchen, Assistant Director; Mr. Levine, Director of the Natural Resources Economics Section ; Mr. Smithson, who works on Inter-Governmental Relations problems, which I hope he will be able to satisfactorily solve. Then there are Mr. Harvey, Mr. Schnick, Mr. Partridge, Mr. Verbrugge, Mr. Cook and Mr. Clarkson and Mrs. Rowan - all of whom have been engaged on this work. They have been assisted very actively by Professor Knox, Head of the Department of Political Science and Economics, Queens University; by Professor MacGregor, Professor in the Department of Political Economy in the University of Toronto, Mr. Eastman, from the same Department, and Mr. Patterson, Director of the Farm Economics Branch in our own Department of Agriculture; Mr. Rickaby, the Deputy Minister of Mines; Mr. Cooper, Mines Assessor ; Dr. Berry of the Sanitary Engineering Branch of the Department of Health, and Mr. Snider --- I don't know if Mr. Snider is here today -- yes, he is here - a new "dollar a year" man who is Chairman of the Ontario War Resources and Supply Commission; Mr. Preston,





who is Chief Statistician of the Hydro-Electric Power Commission.

Among those who advised on the Brief were Dr. Hearn, Chairman of the Hydro Electric Power Commission of Ontario, Mr. MacDougall, Deputy Minister of Lands and Forests, Mr. Elson, Deputy Minister of Highways, Mr. Thornton, the Planning Director, and Mr. Wade of the Statistical and Economics Branch of the same Department, Mr. MacNee, Professor of Engineering, Dr. J. G. Althouse, Chief Director of Education, Dr. Jackson of the Ontario College of Education, Dr. Cannon, Deputy Minister of Education, Mr. Beattie, Assistant Superintendent of Education, Professor M. Taylor of the University of Toronto, who is away today in Ottawa with some of our people discussing the matter of hospital and health insurance ; Dr. Phair, Deputy Minister of Health, who is likewise away, Mr. Tattle, Comptroller of that Department, and Mr. Crozier of the Ontario Fuel Board.

Now I mention these gentlemen because they have had a very real part in this matter - a very great part - but in so doing I acknowledge the services of all of our branches and those associated in this work.

Now Mr. Chairman, in presenting this brief to you, I shall do so I think very briefly - my references will not be very extensive because I plan



to hand it over to discuss in detail, to those who are assembled here - and Mr. Gathercole will arrange with you the method in which that presentation will be made. However, may I first of all refer to just two or three parts of this brief.

The first reference I make is to the foreword which appears to be the simplest and most easily understandable statement contained in the whole brief. That seems to be a good place for me to start, and I should like to just briefly refer to that and to a sentence or two in it. Part one of this submission deals with the history and the economic growth of Ontario and the second part deals with the increasing pressures and requirements for Provincial and Municipal services, as well as the problems that growth and development bring about. Now gentlemen, I want to disabuse your minds that we are here to ask you for money. It is inevitable that we should make some reference to that subject; it will, however, be as a matter of general principle and the reasonable partnership that there has to be, between many of the levels of government, if we are going to do the job that is ahead of us. However, I am not coming here to deal with the problems of money - other than in general reference to them.

Now part three includes a great list of studies and appendices and gives the basis upon which





you could form your conclusions and make your projections. I may say that this paragraph, which I didn't write, interests me very much - it reads as follows :- "Concerning the projections on such matters as population, labour force, school and university enrolment, motor vehicle registrations and public service costs, we cannot emphasize too strongly or too often that such projections are an extension of past trends.." - in other words we have based these things on experience - there may be matters which you think would very much alter what has been projected -- but this is based upon facts, it is based upon our best judgment of the future as seen at the moment. "Although these projections are, in a sense, ventures into prophecy, we do not dignify them by the terms "estimates" or "predictions". We are under no illusion that they will be borne out exactly. If they stimulate thinking about the future and on how our affairs may be conducted, so as to promote the even development of this great province and nation, they will have served their purpose well.

Now gentlemen, as I say - they are predictions based upon actual experience. There may be things - and no doubt there will be things - that will alter these very greatly; our population trends and population growth have been based upon the experience we are having and have had. If there is a very





large increase of immigration from overseas, then of course these will be altered and will be added to -- that is as I understand it. There is another factor that I think we sometimes overlook in this country which may become a very real factor in the remaining half of of this Century, and that is the possibility of very great movements of population from the United States. I suppose it is impossible to assess those figures, but they could upset these predictions entirely. I was interested a short time ago in noticing that the projection of population in the United States - for the next twenty years, I think -- shows something in the order of two hundred and twenty or two hundred and twenty five million people. Well, it seems that one of the places from which we might receive a very great influx of population is from the States. It would seem natural that such should be the case, and the trends which took place in the Nineteenth Century and the first half of this Century, would be reversed by a great flow of people from there into the great open spaces of this country.

Those things we cannot prophesy - that is for the Commission - you can take the picture across Canada and add those things which we advance as based upon factual information.

THE CHAIRMAN : We won't forget



your Foreword Mr. Premier - the paragraph which you read.

PREMIER FROST : Well it may help to remind other people in the future about that. You know there is an old saying about the person who wrote a book - sometimes we write books here and then people take them and use them against us so that I have that defence on the first pages of this Brief.

Now gentlemen, in the first part of this brief, you will be glad to know that I shall limit what I have to say to the last paragraph which is one of the shortest paragraphs in the whole part -- that is the conclusion and I shall just read that, but before doing so, I would say that this deals with the history and the growth of Ontario, which had its beginnings with the coming to this Province of the dissenters from the American Revolution, whom we call, and are glad to dignify them with the title of United Empire Loyalists; they came here in the 'Eighties and 'Nineties of the Eighteenth Century and, the result of their coming here, was the Constitutional Act and the first Parliament, which met in a little log building down on the banks of the Niagara River, to which I have referred, on the seventeenth of September, Seventeen Ninety Two.





I am going to ask you gentlemen after this Session, to have a very frugal luncheon with us, to which I ask all of these gentlemen. This frugal luncheon will be an indication of the extent to which we have to pull in our belts in this Province today, to do the job which we have to handle, but at the same time I should like you to see a picture of that Parliament and its gatherings those many years ago, which actually - though they are long to us, in history are a comparatively short time. Now to turn to page forty three, I will read this paragraph I have referred to - "This part of our Submission has been devoted to an outline of the principal factors in Ontario's social and economic development. We have reviewed the spectacular growth in population and the expansion in both primary and secondary industry. We have shown the rise in living standards, testifying to the fruits that can be harvested by an enterprising and fully employed economy with a high rate of capital investment. We have been heartened by the fact that the people in other countries look upon Canada, and Ontario, as a land of opportunity and stable government." I may say that I use that expression 'stable government' in the very broadest sense -- I wouldn't like to be accused of introducing political



matters into this gathering. "-- and are prepared to risk their savings in helping in the development of our resources. There is, of course, always a danger that foreign control may result in the dictation of company policies which would be unfair to Canadian producers and this aspect has to be given consideration. It should be borne in mind, however, that Ontario's development could not have been achieved without an inflow of capital and that, in addition, Canadians themselves have become increasingly conscious not only of their own investment opportunities but of those abroad. Indeed, for most of the past twenty years, we have been a net exporter of capital and that is a sign of our growing maturity.

While the picture of a pulsating Ontario presented here is an impressive one, and bright with promise for the future, great problems and responsibilities lie ahead. The sheer fact of growth itself has given rise to a host of problems, some of which will be considered in the next part of this Submission."

Now gentlemen, there is only a brief comment on that paragraph which I might add here - - I would say that the matter of inflow or importation of American and foreign capital into this Province which is sometimes under discussion and is





sometimes a matter of some misgiving and some misunderstanding, although I would say to date, in balance, the inflow of capital from abroad, including the United States, has been in our favour -- very much in our favour. I remember being down at the celebration of the Hundredth Anniversary of the Toronto Stock Exchange - and to repeat the comments which were made at the time of the introduction or the establishment of that exchange - the need for capital from abroad to develop this country, seems to be necessary to the hopes and aspirations of those people at that time.

It is sometimes very annoying of course, and of that it is certain, that an industry having an American Director and American negotiators, should deal with a Union international in its complex and with American negotiators, concerning the wages and conditions of Canadian workmen, who are entirely resident in Canada. Those things are happening -- that is happening on both sides. This is a disability and a complexity which is hard to deal with - you might as well acknowledge that.

On the other hand, we think this - that without the inflow of capital from outside, the financial strength of Canada could never have been developed, and this applies to our own Province,





gentlemen. It is well to point out that our own financial institutes and the strength of our own money markets, have grown immeasurably. It is well to point out that of the very large amounts of capital required by the Ontario Government for its undertakings and for those of its subsidiaries, such as the Power Commission, over eighty per cent have been advanced by Canadian investors through Canadian money markets, which fact attests to the strength that has accompanied the development of our country, the strength of our Canadian economy. With the Power Commission alone, in the last ten years we have one billion seven -- I believe it is, the actual figures are in these briefs and submissions -- and there has been the growth and strength of our Canadian fabric that enables us to borrow eighty per cent of that, or better - somewhat better I believe -- in Canada. I think that speaks very strongly for the fact that the importation of capital has not weakened our structure -- it has added to our structure. Now, that it is without problems, I by no means say -- but it is well for us to face the facts.

Now gentlemen, in part two, which deals with the demands or the requirements of expanding economy for provincial and municipal services, and the problems thereby created, I might deal with



the last paragraph again - and I will preface what I have to say by this, that in the development of our country, it has to be a partnership affair.

We have to have an understanding and a co-operation and a partnership between all levels of Government - Ontario - Provincial - Municipal - School Boards, Commissions and so on -- and thereby give a workable and intelligent approach to the problems which we have in the future. Now I will read this portion which is comparatively short: --

"We have endeavoured in this Submission to set out the economic progress of Ontario, and the prospects for the future. We have outlined the basic position of agriculture, mining and forestry in our economy. We have shown that while about one-fifth of the net value of Ontario's manufacturing output results from the primary processing of products of the farm, mine and forests, there is a large and growing proportion of our industry engaged in the more advanced stages of manufacturing, such as farm implements, motor vehicles, aircraft, machinery, machine tools and electrical appliances and apparatus. In many of these branches, we have not only supplanted by domestic manufacture products formerly imported, but have been able to develop an increasing volume of export trade. It is by continually expanding





these secondary manufacturing stages that our best hopes lie for achieving higher living standards.

To relegate Ontario to the role of a hewer of wood and a drawer of water is to ignore the advanced fabricating and processing industries that have already been established in this Province. It is true that we cannot share in some of the advantages which arise from the economies of the division of labour resulting from serving a mass domestic market, but we may make up for them by other means: by achieving higher levels of technical skill, by greater enterprise and research and by so planning our communities as to reduce industrial costs;" I may perhaps add to that, by increases in population which will result over the years -"in this way we can move forward towards greater diversification in industrial plans which will make us less vulnerable to the vicissitudes of technical change and shifts in external demand.

The services of the Province and its municipalities, including Ontario Hydro, the Ontario Northland Railway and other Commissions and Boards, have made a most direct contribution to reducing production costs. A signal example of this is the development of a highway system that has made possible on a large scale the use of delivery trucks and great motor transport vans



which save time and manpower. They give a flexibility to the scheduling of production and marketing, and their contribution to the lowering of production costs is incalculable. Indeed, through the speed and regularity with which such goods may be moved over the public highways, from one factory to another and because of our abundance of hydro-electric power," -- I put a query after that, that is a little optimistic, "the abundance" -- you will deal with that problem a little later on. In connection with the power matter, we are certainly going to have to supplement our power supplies in a very large way -- through steam generated power. Those particulars will be given to you but I can't underscore too strongly the requirements of Western Canadian natural gas and oil in the development of this country. I may say I am thinking of a National policy in that matter, and I think we have evidenced that by coming in in a big way - we might even be prepared to re-consider our position there. We believe that is a matter of the highest importance to this country. "... low cost of production and huge manufacturing plants are no longer necessarily synonymous. The flexibility which these elements have given to production permits a greater output





of standardized products for a moderately-sized market at competitive costs, hitherto attained only in very large, highly mechanized plants. However widespread this effect may be, there can be little doubt that the efficiency with which manufacturing in this Province is now - and in the future will be - conducted, will depend on the services rendered by the province and municipalities." I would say sir, that the provinces and the municipalities in times of peace are the right arm of development -- you can't look at this thing from the standpoint of war-time necessities, and requirements, which sometimes perhaps tend to overshadow the problems of winning the battle of the peace.

"In view of the growth ahead, a further expansion of these services is inevitable. The need for new schools is at present very great, and will continue so. The universities are faced with an enormous programme; increased grants for their purposes are fore-ordained. The demand for highways and municipal thoroughfares must be met. Hospitals will require an increasingly large expenditure for their purposes, while the need for water and sewage disposal treatment plants is urgent. Sources of revenue to the Province and municipalities must, therefore, be sufficient to support the expansion





of these services.

We have purposely avoided referring to Federal-Provincial fiscal relations, but the demands on the Province and its municipalities for public services and the necessity of assuring that Federal-Provincial fiscal arrangements do not put a drag on the economy can scarcely escape the attention of the commission. The Commission's consideration of these matters is inseparable from its consideration of Canada's economic prospects. A high rate of population growth and economic expansion requires a favourable economic climate. Population does not grow, nor do industries operate and produce income, in a vacuum. Provincial and municipal services must be provided, and the taxation and other fiscal measures required to finance them should be such that they do not impede growth.

Because of the concentration of our industry and population, it costs us as a province, a great deal of money to operate. There are times, with the present distribution of tax revenues, when the Province is obliged to make a substantial outlay for services which earn a large federal revenue," and indeed earn large adjustment payments - to which we don't object - we have some misgivings - but the fact is that they



yield a very small return to the Province, in their earlier years, which makes it most difficult.

You had some of these miners up here the other day and I can cite a case in connection with the Manitouwadge area -- Manitouwadge area will involve an investment of millions before we can get a cent back. The development of the Uranium mines

in the Blind River area is going to result in the same thing - the investment of millions - and in my own riding of Bancroft - that area is a country which was and is now pioneer country - bush country.

They are laying out a town site there for between five and ten thousand people; they can't put down these very great outlays of money to provide services that their community requires - and I point out to you that in looking at the future of capital profit for the development of Canada - in other words of employment - these things can't be disregarded.

You can't pull the blind down and overlook these things and take the view that developments will merely take place, without regarding the problems that are going to be involved.

"Often we are faced at the outset with deciding on an expenditure to stimulate expansion and development, when in fact it does not pay us as a province to spend the money, owing to our small return from corporation and personal income





taxes." I may say that we have never taken the 'little view' here - at least yet, and I hope we never will have to take it, but nevertheless - that is a problem. "This is not a satisfactory situation, but one of the anomalies of our tax system that the Federal Government derives by far the larger proportion of tax revenue from our natural resource industries though these resources are vested in the Province, which is committed to very large expenditures for their conservation and development.

As we have seen, fifty per cent of Canada's manufacturing industry is located in Ontario. The commission in its deliberations should not overlook the problems caused this Province by the location of industry, the means for dealing with which should properly come from corporation and personal income taxes. Industry produces revenues from these sources, but there are also penalties imposed, including the cost of provincial and municipal services in support of education, welfare, health, highways, water and sewerage. It is not sufficient merely to consider the amount of taxation arising from a province, but also the obligations that servicing this industry imposes." I might say here Mr. Chairman, that



I will refer to that very briefly in just a moment, but I think that our thinking in connection with fiscal and economic matters in Canada requires a considerable amount of shaking up. It is a fact that revenues arise in a Province, but if you leave out the other side of the "ledger," you get a very distorted picture.

"Although great developments have taken place all across Canada, Ontario's proportion of Canada's population, labour force, manufacturing and tax payments, has remained constant down through the years. As half the Federal Government's direct tax revenue comes from Ontario, it is the productive power, income and wealth of this Province that makes it possible for the Federal Government to finance its broad programme, including the provision of fiscal need payments to the other provinces and the comprehensive array of social services that benefit the people in all parts of Canada." I would like to mention that I am in favour of that -- I am in favour of these payments and I am in favour of giving some equity of opportunity and services to the people of this country. Ontario can't prosper alone - we have to have a strong Canada - a prosperous Newfoundland - a prosperous British Columbia and indeed, a prosperous Ontario, are all necessary in





the development of our country - therefore I don't take the small view of this problem. "Our interests are devoted to promoting development and prosperity throughout the nation, but this objective should be sought by exploring new opportunities in the less prosperous regions and maintaining a sound system of fiscal need grants for provinces that genuinely need them. In the process, Ontario should not be placed in a financial strait-jacket that forces it to adopt unsound taxation policies and prevents it from financing the services that its industry and people require.

Obviously, we cannot be content to stand still. Our living standards have increased by over fifty per cent in the last sixteen years. Personal and family security have been strengthened." I am one of those who very strongly takes the view that you can't add up progress in profits of dollars and cents altogether. It has to be added up in the development of the betterment of the human resources upon which this country and this province depend. "There is no reason why, in the next decade and a half, those achievements cannot be surpassed. But if we are to do so, we will need to work out sound Federal-Provincial tax and other fiscal arrangements, enabling us to undertake the great public projects that will increase



the efficiency and productivity of our workers and our industry. If we follow this course those higher living standards can be achieved and the fruits of our progress made available in an ever-widening circle."

Now sir, I would just add to that a few comments-- and again, we are not bringing Ontario's problems of fiscal relations to this commission. We are pointing out that these things are necessary in the development of a country and you have to have thinking that is based upon Nineteen fifty six and the years to come. We are not here to ask for money - it is here, however, that we plead for an understanding of our problem and I think that is a fair way to put it. We are here to plead for an understanding of our problem. The Government's references to this matter are concerned with principles and attitudes, and this is a good time to re-examine and re-assess our positions and policies. You will be glad to know that I do not propose here to re-assess and re-examine them but I say that this time - in January Nineteen fifty six - is a good time for people to re-assess and re-examine our positions and policies. If this is done, there can be an enlightened point of view and wise partnerships between all levels of government and





those partnerships can be developed to advance productivity - employment and development.

Now sir, I think it is plain that our contribution to Canada's fiscal strength and to Canada herself, is a great one. We say that in the sense that it is our obligation to make that contribution. We are one of the provinces and we don't come to you as more than one of the ten provinces - they are all important and all of our problems are important. But nevertheless sir, we have our problems here in Ontario, and it is our purpose to put those problems before you. I would say that our policy here in Ontario, over the years, has been investment in the future of the province, and the country, and we have to do without a good many things, as we have had to do without a great many things in the past, in order to accomplish this. I would say gentlemen, that there are many things that are obtainable in other provinces, that we haven't here, because we have used the money up in the development of this province, and, doing without a lot of things has produced fine results. This is our policy for the future and I may say this, that I look on the future of Ontario - and I am banking on the future of Ontario -- from the standpoint of the development and strengthening of our





province - and if that is accomplished then the living standards will rise as they have risen in the past sixteen years, by fifty per cent. It seems to me that the point to place our money - the place that we should bet on in this land of ours, is in the development of our land. It is just as simple as that. Now if we don't have the means with which we can do the job, then if we can find the means with which to do the job, we can pull with greater weight and great effect in the Canadian picture, in times of peace. As I said before, the provinces and their municipalities are the right arm of development and I think that is the thing that we should recognize in this year Nineteen fifty six, where we are going to be faced with great changes, in winning the Battle of the Peace. I would say that it is essential to democracy to win the Battle of the Peace.

Now sir, at the outset in reading the general foreword - I used this sentence, which was placed in my mouth by these very able gentlemen who assisted in preparing this brief -- "If they" -- and that is referring to these projections -- "stimulate thinking about the future and on how our affairs may be conducted so as to promote the even development of this great Province and Nation, they will have served their purpose well." Now



our thinking on fiscal payments - as I said before - has to be up-to-date. There has to be appreciation of the conditions of Nineteen fifty six, and those conditions we are going to meet if we are going to do our job in our country. My criticisms, gentlemen, are these - that there is too much thinking predicated upon conditions which existed at the time of the Rowell-Sirois Commission, when there were virtually no fiscal payments. Our day is a different day from the 'Thirties.

Such payments have now been made for years - the principle is accepted, and we are all favourable to them being made, where they will do the most good to the Canadian economy. May I point out, however, as I have read in Chapter Eight of our brief and which I have just quoted -- that the producing, earning, developing province which makes possible the fiscal need payments, has its own problems also. There should be an assessment of those problems and I feel this, that if we are still living with the thinking of twenty years ago - and I don't think there has been an assessment of these problems - then I should say that this commission could make that assessment. My feeling is that we are indeed still living with the thinking of twenty years ago, and such an assessment should be made.





As I have said, outlays of sums in the millions of dollars have to be made in some cases, and in some localities, before a dollar in tax revenue is realized provincially. There has not been too much federal thinking along those lines and there has been a disregarding of the needs of such thinking, - I might say a compressing in its thinking to the barest needs - and not even sufficient to meet those needs, and then treating it as a standard and raising the other provinces to that standard. Such thinking in these days is archaic - some provinces are too loosely spoken of as wealthy provinces and their problems are lightly dismissed because it is said they are wealthy. I don't think gentlemen, that you can take that viewpoint any longer -- you have to consider these things. The tendency is to look at their assets without having regard to their commitments and their liabilities - the incidence of the free industry and the development which has put these assets, of which I have spoken, on the other side of the ledgers is disregarded.

Now sir, I will give you a case in point - which I think underlines this problem. I received yesterday a letter from Mr. Bannerman, the Vice-President of Page Hersey Tubes Limited, in which he advised me that a ten million dollar mill, to produce Canada's first big inch pipe will be



built at Welland, Ontario, as a joint enterprise by Page Hersey Tubes Limited, and the Steel Company of Canada. Now this plant is planned to be in operation by the end of nineteen fifty six, - the mill will produce electrical weld pipe from thirty to thirty six inches in outside diameter, making it the only pipe mill in the country turning out pipe in such large diameters. Now, you, gentlemen, can see the importance, of course, to us here in Canada, of such a development - with the Trans-Canada Pipe Line, I hope, becoming an actuality - and involving an investment of one billion dollars in Canada, about half of which will have to be for lines here in this Province. The new mill will have a production capacity of two hundred thousand tons of large diameter steel pipe per year. The necessary plant will cover more than five acres of land, and will be located on property close to Page Hersey's present pipe mill at Welland, Ontario. Officials of both companies are confident that the Welland plant will be producing in ample time to handle orders in connection with the proposed natural gas line across Northern Ontario from the Manitoba boundary to Southern Ontario markets, and other proposed projects involving large diameter pipes, within the range of this new mill.

Now, gentlemen, that is an attractive





picture-- the plant is going to be located here as a new industry - using iron ore which is mined, or which is very largely mined, in our Province, or in Canada. It is going to fabricate steel, employ Canadian workmen, and add, or make its contribution, to the self-sufficiency of our country. I think a very large foundation towards the solution of our fuel problem, or at least a very large contribution to it, will be in the use of Western gas and oil -- first of all in Canada, -for the development of this country.

This is one side of the picture.

Well - sometimes these things get out; this letter is dated the twentieth January and I received it yesterday or the day before. The Mayor of the fine -- I was going to say ambitious city of Welland, but I think I have to be very careful in using the word "ambitious" because it belongs to Hamilton -- but the ambitious and enterprising city of Welland, heard about this, and they were over here. Now, gentlemen, what did they want?

They have to have, they argued, either a bridge over the Welland Canal or a tunnel beneath it. This construction, plus the inevitable schools and hospitals, is going to mean that any income that could come to the Province from that industry for a generation, is going to be paid out before we get a





dollar of it. Now, I would say that that is one of the reasons why I ask for up-to-date thinking in connection with these problems. If we put a tunnel under the waterway of the type determined by our planning experts, and highways engineers, who do these things -- that is one thing. If a bridge is to be built over the canal, then the Federal regulation -- which I think was devised about the time of the War of Eighteen Twelve that I spoke of --- that requires a bridge a hundred and twenty feet high, I believe, over the level of the canal. We are having that little problem at Burlington at the present time. I should add that I think the days when they would require laws providing for the masts of ships being a hundred and twenty feet high are pretty well gone.

I think we ought to take a good look at shipping and a new look at the requirements of commerce in these days! That is a case in point that I wanted to give you which shows the necessity for taking a new look at these things.

I say that this archaic thinking not only works out leaving this Province with problems and in an unrealistic tax position, hampered and fettered, but it also leads to a taking away from other matters of Provincial pertinence. It is very difficult for me to understand these things.



I won't elaborate on the subject of unemployment but, in a great industrial Province, with half the industry in Canada, and I suppose it follows - about half of the working men and women -- our problems of unemployment might well be very large - and I am glad to say that they are not at the moment. However, they could be very large. I might mention that the formula that I have mentioned to you does not meet the requirements of that situation - and that is one of the hazards of industry.

Now I would like to mention what is proposed, or what I gather is proposed, in Health and Hospital Insurance. I drew attention to these proposals yesterday, in a moment of extreme exasperation, and I think perhaps I should mention them again today. If they are not what I suggest, I shall be glad to come back to the Commission and say that there has been a reversal in the Federal Government's thinking on these and other matters, which is inherited from the years of the Rowell-Sirois Report. It seems that it is now proposed that the Federal Government's payments to the Province for hospital insurance be based on the national average of hospital cost. That means that this so-called wealthy Province, with all of its problems and its unavoidable high costs, which arise from the development





of industry and the concentration of population, but which contributes such a large proportion of Federal revenue, will receive an amount that bears no relationship to its costs. I would say, sir, that if this is not the case - if it turns out that there has been a reversal in the Federal Government's policy, I shall be very glad to acknowledge it. I have taken the opportunity to protest against the Federal point of view that penalizes Ontario both here and elsewhere, and I say that such a view is neither fair nor realistic. Industrial development does not take place in a vacuum, therefore, such a type of proposal has to be revised in many directions; and, through stimulated thinking, I hope, will come a fairer and more realistic approach to these problems, in getting straight with Ontario's needs of the day. This is essential indeed, if all levels of government are to proceed in partnership for the accomplishment of the opportunities which are ours in this country - and cannot be overlooked.

Now sir, Ontario gives this brief to your commission - it will also be widely distributed to our people and, we hope, widely read by our people, because we feel that it gives some of the problems and perplexities which face us now and will



face us in the future. As such, we are sure that it will stimulate thinking and it will make its contribution, along with the other briefs and submissions that you will receive, across this country, all of which have their place and all of which are important in the picture of the building of a greater and stronger Canada in the years to come.

Now gentlemen, that is all I have to say, which probably is much too much, in relation to the presentation to you of this brief. I suggest Mr. Chairman - although of course, the Commission is quite at liberty to proceed in any way desired - but I make this suggestion to you, that Mr. Gathercole - our Deputy Minister of the Department of Economics, should introduce to you certain subjects and then he could introduce Professor Knox and Professor MacGregor and any of these gentlemen you may require to hear from. Now of course, you may have a procedure that will fit in, more, with the work you are doing on this commission, and if so sir, we will be most happy to co-operate. This is merely a suggestion, and that places the brief in the mill at any rate, for you, gentlemen, to proceed as you see fit.

THE CHAIRMAN : Thank you very much





Mr. Frost, - it is a great help to this commission, not only to have this very valuable submission which we would like to discuss in the manner you have suggested, but also to have the benefit of your own views and the views of your Government, on certain policies. This provides us with the kind of atmosphere in which we should interpret some of the statistics prepared for us - and we are most grateful to you.

Some of my colleagues get a little nervous about this time of morning if they are not allowed to smoke, and with your permission I think we may have a short recess at this point; then we will proceed in the order you have suggested. I will ask Mr. Gathercole to start leading us through the brief, and, incidentally, I think at this time we might mark this brief Exhibit No. 139 for the record. If you approve we will take a five minute recess.

HON. LESLIE FROST : I may say that we have no objection to any member of the commission smoking in the chamber - that has been the practice heretofore, and if you desire to do so please do. We would not have the commission suffer here in the Province of Ontario!

THE CHAIRMAN: No -- we are told you have bought a new rug, which we certainly admire





very much, and we must not take any chances - we wouldn't like to burn a hole in it.

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Recess  
After Recess  
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THE CHAIRMAN: Gentlemen, if we could now come to order please --- The Premier has kindly agreed to read over the last paragraph of this submission for the benefit of the television, so that if you hear some of the words over again don't be startled.

HON. LESLIE FROST : This is one of the things we are called upon to do in this new day - it may appear to be a little ludicrous, but it is necessary.

TELEVISION OPERATOR: Ready now sir.

HON. LESLIE FROST: Well, Mr. Chairman, how wide the effect of the incidence of industry may be on the country and its people, there can be little doubt, when the efficiency with which manufacturing in this province, is now, and in the future will be conducted, will depend upon the services rendered by the province and its municipalities. That, of course, is common to all the other provinces; the provinces and their municipalities in times of peace are the right arm of development.



Now in view of the growth ahead, a further expansion of services is inevitable; the need for new schools is at present very great, and will continue to be so; the universities will be faced with an enormous programme and increased grants for their purposes are fore-ordained; the demand for highways and Municipal thoroughfares must be met. Hospitals will require in increasingly large amount of expenditure for their purpose, while the need for water and sewerage disposal treatment plants is urgent, and it follows that the sources of revenue - the means to do this job - is therefore a matter of importance.

Obviously, in Canada we cannot afford to stand still. In our Province - and I expect that this is generally true of Canada - our living standards have very largely increased in the last sixteen years. In Ontario by about fifty per cent. Personal family security has been strengthened and there is no reason why, in the next ten or fifteen years, those achievements cannot be surpassed. If we, today, say that we will need to work out a sound and realistic partnership and tax relationship on the Federal-Provincial level, enabling us to undertake great public projects, that will increase the efficiency and productivity of our workers and our industries.





I am confident, sir, that if we follow this course, that higher living standard can be achieved and the fruits of our progress made available in an ever widening and enlarging circle.

Ontario gives you this brief, gentlemen, which will be widely distributed among our people and, I hope, studied by our people. We feel that it gives a safe and realistic estimate of the opportunities and challenges, as well as some of the problems, and the perplexities, which will face us all, -- will face our people in Ontario, in common with the people of Canada, in the development of our great country in the future. We are sure, sir, that it will stimulate thinking, and if it does that, it will have served its purpose in making a great contribution to the work of your commission, and, along with the briefs which you have received from Canadians across our country, to the people of a greater and stronger Canada in the years to come. Thank you very much sir.

THE CHAIRMAN : Thank you, Mr. Frost. Now the suggestion is that Mr. Gathercole will take us through the brief, so if you would like to take over now Mr. Gathercole ?

MR. GATHERCOLE : Mr. Chairman, as the Prime Minister said, we will be entirely guided by your wishes as to how we should proceed. Our



thought - and I have discussed this with Professor Knox and Professor MacGregor - that we should deal systematically with the Submission, that we should not attempt to read it verbatim, but that we do go through it in an orderly fashion. Before I call upon Professor Knox, who will lead off for us, I would like to say what the Prime Minister has said, in somewhat different words, that is that the report is a factual one - that neither in the form or in the content have we received dictation from the Prime Minister, or from any other Member of the Government. This no doubt means that the Report loses a great deal through the lack of wisdom of the Prime Minister and the other Members, but on the other hand, it does possess our own convictions. We therefore do emphasize that we believe it to be an objective report in dealing with the facts, and trends, and economic conditions, and social conditions - as we see them. I would, therefore, with those brief comments, ask Professor Knox if he will introduce the first Chapters for us.

PROFESSOR KNOX : Mr. Chairman, I propose to give you an abstract as brief as I can manage it, of the argument you will find in the first two Chapters of the Submission, and some of the supporting evidence which you will find in the Manufacturing Section of Chapter Three, beginning, I think, at page thirty





three. I don't propose to submit these points in exactly the order in which they appear in the Submission; I have somewhat altered them for the purpose of abbreviation, or compression.

Let me begin, Mr. Chairman, by some introductory platitudes, the standard of living of Canadians, I think we will all agree, is dependent upon two very important elements, in our economic life and structure. The first of these is efficiency, the lowness of the cost with which we produce our export products gained from the many raw materials and their processing. The second, I think, is the terms of exchange which we can manage between those products and those which we must import.

About the basic importance of these two determinants of our standard of living, I presume there would be very little disagreement, but we occasionally, I think, ignore or give secondary place to a third element in which this Province's economy is particularly interested, and that is the efficiency with which our domestic manufacturing is managed. Much of the commodities which Canadians buy - much of the goods which they buy - are goods not from imports but from domestic manufacturing sources. It is, therefore, very important to the standard of living of Canadians





that these goods should be made at as low a cost as possible, and that the productivity of workers in those industries should be as high as possible. It is of great interest not only to the people of this province, but to all Canadians, that this should be so. One third of the people of this country live here; one half of the manufacturing of the country is done here. It is therefore quite impossible that the degree of efficiency which our industry - of all sorts - as well as our primary occupations can achieve, should not be of great importance to all Canadians. Our traffic with the other provinces is great and therefore the efficiency of our industry makes a basic contribution, not only to the standard of living of the people of Ontario, but also to the people of the whole country.

Furthermore, it is a basic assumption of this brief that the importance of Ontario in these matters - as indicated by the percentage of population and of manufacturing development and output which we have - will go on over the period in which you are interested in forecasting. There seems to be no reason to believe that this situation will be subject to any great change.

Now then, since that argument is basic to the brief, it was thought feasible to set down in the



introductory chapter, some reasons which seem to support that argument. I should like briefly to turn to them then, if I may. First of all, I think it should be pointed out that the concentration of manufacturing in Ontario is not a consequence merely or mainly of the abundance of the natural resources which we have in Ontario. The importance of these resources is very great; the importance of the manufacturing based upon them is very great - as you can see if you look at the table on page thirty seven of the Submission. But, if you will look at the table on page thirty eight, I think you will notice that the natural resources alone are not in themselves, a sufficient basis for the manufacturing development. The table on page thirty seven is I think, particularly worthy of attention. You will notice that on that table, which sets out the contribution of the several provinces to the total Canadian manufacturing output to the leading industries of the country, that there is an overwhelming concentration in the Province of Ontario and, to a lesser extent, the Province of Quebec, and the other Provinces, which are well endowed with natural resources, do not approach in absolute amounts the significance of these two Provinces.





On the next page, table Seven, page thirty eight, the groups at the top - two very interesting groups of industries of this Province, show the first of these as a specifically domestic industry, motor vehicles and parts, and the second is electrical apparatus and supplies, which are typical of our consumer and capital goods production. It is significant, however, that the next group, pulp and paper goods production, non-ferrous metals smelting and refining, and primary iron and steel industries, are very important in this Province, so that we have a foot, in other words, in both the natural resource production camp and in the domestic manufacturing camp. This point is very important.

I should like to say here Mr. Chairman, that despite the common argument to the contrary, it seems to me to be improper to aduce National Policy as the main cause of our domestic manufacturing development in Ontario. Whatever protection is given, for instance, by the tariff, surely applies anywhere in the country, and cannot be offered as an explanation for the location of industry anywhere - in any particular spot. It seems to us that the factors which determine our manufacturing development may be summarized in two classes, the first, physical and then the historical ones. The physical basis



of manufacturing may be indicated quite clearly by the experience of the United States. There you find, despite the enormous size and the wide-spread character of the resources of the country that its manufacturing is concentrated to an astonishing degree in two great areas - one of which extends along the Atlantic coast from Massachusetts to Pennsylvania, roughly, and the other lies to the south of us, between the Great Lakes and the Ohio River, and west to the Missouri, perhaps. Now a characteristic feature which these two possess, in common, it seems to us, is that they were areas well placed - peculiarly well placed - with low-cost transportation facilities - the sea coast in the first place and in the second, a remarkable net-work of railway lines, whose location, passing south of the Great Lakes and along to the east, towards the Atlantic coast, is determined, pretty largely, by the physical structure of this Continent.

I would like to take a moment on that matter, if I might -- one can regard, I think usefully, the central part of North America as a great food and raw material producing area - roughly shaped as a triangle, lying on its side, whose base extends along the foot-hills of the Rockies, the northern boundary of which is quite clearly marked by the edge of the Canadian shield, and the southern side, less definitely





so, but roughly by a line from the north part of the State of Texas, up the Ohio Valley, towards the St. Lawrence area. Now from the broad base of this triangle, food and materials have flown east-ward to the markets of the Eastern coast and Europe in an ever more concentrated form and through the bottleneck almost, of the apex of the triangle, have most of the transportation facilities - the canals and the railways, been built. Now the fact that these railways and other facilities for transportation were there, that they were brought there by the trade of the Continent, seems to us to be essential to an explanation of why this particular area, immediately to the south of us, became a great manufacturing country. The existence of these railroad facilities made possible the low cost assemblage of the raw materials and the marketing of the finished product. The fact is, that because we are induced by raw resources or community type of industry, that industry has not gone further west to any marked degree, which suggests that this basic factor has been of great importance in determining the development of this area as a manufacturing area.

There is also the very excellent farming part of North America, and therefore not only is cheap and perishable food - fresh food - obtainable there, but





also from the Western part of the Continent. It is also an area that is not congested. There is an abundance of land, an abundance of water, and these are of immense importance, not only to the industries themselves, but to the convenience and attractiveness of the life of the workers - and the population that depend upon them.

It seems to me that the Province of Ontario in its southern part, that part which lies south of the Shield, shares in all its characteristic advantages, so far as the structure of the Continent is concerned. Therefore it is marked out as a similarly favourable manufacturing area.

The second point that we would make in this connection is that the history of this part of Canada has permitted just the same sort of inducement to manufacturing development, that was characteristic of the areas south of the Great Lakes. When the railroads were being put through several of the Lakes, they were being put through north of them, and for the same reason - to get at the great traffic which the food producing part of the interior of the Continent provided. Also, many of these railroads and canals were built to take out the forest products and the wheat which were characteristic export staples of the early part of our Nineteenth Century here.



We also have abundant land - a great variety of soil, suited to the variety of mixed farming products, which can make food cheap, and also land and water available in the Great Lakes, particularly, for industrial sites. Our history also sir, has provided the basic transportation facilities, to encourage manufacturing development. When the Wheat Economy of the Prairie Provinces was opened up, Southern Ontario was therefore in a position at once to share in the business which the new traffic permitted. Then, a little later on, our own Northland was opened up by railroads and other pioneering development, and added its volume of business of which Southern Ontario, being possessed already of railroad facilities, business institutions and long experience in this sort of business, was in a position to take advantage.

Today, the Southern part of this Province is well located - as well located perhaps as any other part of Canada, to service the many opportunities for business in the forest and mining developments that expand in the Canadian Shield - a great arc around the Hudson Bay.

Now these are the physical and the historical reasons why manufacturing has found Southern Ontario a particularly suitable locale from which





to serve the whole of the country. It is next to be stressed that in this development the role of government has been basic. One needs but to mention the aid which governments have given to canals and rail-road building. Particularly in Ontario is the importance of the development of the Hydro Electrical system and now, for both power and navigation purposes, the development of the potentialities of the St. Lawrence River. It is also important that we have governments willing to provide, as thoroughly as their financial competence makes it possible, the basic facilities of industrial civilization. I don't need to list schools, hospitals, government services and such like. We conclude that the advantages that favour this part of Canada as a great manufacturing area, are, insofar as they are physically determined, probably permanent, so far as they are a matter of government and social policy; they are, of course, subject to our discretion.

So far as the future is concerned, it seems to us that probably the role of the provincial governments will grow rather than diminish, in inducing the development of Ontario as a manufacturing province and particularly, in assuring that the development goes on in such a fashion that productivity may rise and the manufacturing production may be as low a cost production as it is possible here to achieve.



Transportation is still the characteristic feature in a great manufacturing area, but to date we have this in a new and particularly interesting form - the motor car. As a consequence a dense road network will be found in almost every manufacturing and industrial area. Now the importance of trucks and motor cars and the roads on which they move is not so much in long distance traffic, in which they may compete with the railroads and canals, as it is in local traffic and in local transportation. Particularly in two aspects, first of all the movement of workers fore and back from the suburban areas to the factories or offices in which they are employed, which makes possible the minimum expenditure of time and, on the contrary, avoids the necessity of living very close to manufacturing localities in the denser parts of cities and towns. Where those road facilities are abundantly provided they have also, we think, an influence upon the character of the manufacturing itself. One of the most conspicuous features I suppose, of our manufacturing development is the huge plant in which most production procedures are carried on. But it is also possible to have mass production without a huge plant. If there are adequate facilities so that goods can be moved between one stage and



another of the process of production, then it becomes possible to carry on fabrication in relatively smaller plants, particularly adapted to this sole stage of the small part of the process which they undertake. When that is possible in some industries at least, it may be possible to economize on the capital cost of the huge installations commonly involved in the mass production methods. I would not suggest that some industries are so obviously adapted to this system, particularly when they are using large scale development - such as machinery - but many industries will find it possible to use this alternative method of large scale production, as a means of reducing costs.

Now if this be valid, then Government is bound to be more and more a factor of great importance in the determination, even for so apparently a private enterprise matter as the level of production costs and the productivity of workers, because adequate networks of roads involve careful design of location and characteristics of those roads, and careful planning for the development of the urban areas into which they are to be placed. It not only demands very, very careful planning of those areas, but it also involves the speedy and adequate construction of roads and facilities involved.





There is one possible method, we think, here --though but one of course -- of off-setting some of the disadvantages which manufacturing in Canada traditionally suffers from - the competition of mass-production industries in the United States on the one hand and the necessity of paying North American scales of pay, or something approaching them, on the other. It is possible that here we may have one way of off-setting to some extent, the competition disadvantages from which we suffer in these two cases. If our costs of production could be brought down by the provision of an adequate and skilfully designed basis for manufacturing in an area already adapted to it, by the structure of the Continent and its history - then we may surely find it possible to develop manufacturing in this country which will be able to compete with most of the imports and competition it will certainly have to meet, and to provide from domestic Canadian sources a perhaps increasing portion of the commodities which the Canadian standard of living involves, and at a price not greatly higher than that at which these commodities will be available, from an outside country.

Now I do not need, Mr. Chairman, to stress after what the Prime Minister has said, the obvious Provincial Government, particularly financial, implications in this argument. If it is a valid argument



then there is a good ground for assuming that manufacturing will develop in this province for the service of the whole of Canada, which it has hitherto done. And if that be the case, then the whole of Canada will be interested in the efficiency with which Ontario industry and manufacturing is conducted. In order that that efficiency may be at its maximum the Ontario Government ought to be provided with financial resources necessary to create here the physical facilities budget. In this way high level productivity can be achieved and that, I would stress, is in the interests of not only those Canadians who happen to live in this province, but all Canadians, because they trade with us and we with them.

Thank you very much Mr. Chairman.

THE CHAIRMAN: Thank you Professor Knox. I think perhaps we could hear the full presentation and then ask questions - would that be the best procedure ?

MR. GATHERCOLE : Mr. Chairman, I might draw your attention to the paragraphs which I think provide a good deal of the setting for this submission and part two which follows, which are set out on page five of the brief. This has been so eloquently stated that I would like, with your permission to read page five -- I think this is most important.





"For the creation of an industrial belt whose industries have very high levels of production per man, private enterprise and capital are not enough ; governments must today play a vital role. To low cost production, they may contribute directly by carefully planned and controlled urban growth and a well-designed and adequate network of highways, roads, railroads and other transportation facilities. Poor facilities waste time in moving men and goods, raise costs and handicap our manufacturers in competing with producers in the industrial areas of the United States, which are so lavishly provided with transportation services.

Important as such material contributions are to industrial efficiency, they are perhaps exceeded in urgency by the need to provide the great variety of private and public services - in peacetime, provincial and municipal services in particular - which contribute so much to the creation of a well-trained, productive and contented people. Schools, universities, hospitals and municipal facilities are the obvious needs; no less important however, are smoothly functioning legal services, conciliation and other labour services and well-trained civil servants. In providing these, much public expenditure will be required. If the nation is to



withstand the intensified competition which the increasing pace of technical change is bringing upon us, we cannot expect to have the spending programme of a pioneer economy.

Though some industries currently feel, very keenly, competition from countries overseas, the severest challenge to the Canadian manufacturer is likely to come from the United States. The Canadian producer cannot lag too far behind in meeting the competition of the infinite variety and cheapness of American mass-produced goods and services. To meet their challenge, he can neither resort to the production methods made possible by the larger American market, nor to wage rates too much below American levels.

In the rapid growth that lies ahead, however, there is an opportunity to exceed the United States in the skill with which the expansion of our cities and towns is guided and the adequacy with which the basic facilities of community living are provided. In this particular, at least, Ontario's industries need not be handicapped. For a time, they might indeed reap the great advantages of a relatively fresh start.

That the people of Ontario should be given the greatest possible aid in meeting the challenge





which confronts them is obviously of the greatest importance to all Canadians. Great manufacturing development may well occur in other provinces. It seems clear, however, that Ontario is not likely to lose her present predominance as a manufacturing province. Accounting, as she does, for more than half Canada's total manufacturing output, the greatest possible efficiency of Ontario's industries is of prime importance to the whole Canadian economy. The Government of Ontario is therefore particularly concerned that the size of the task which falls to its lot in furthering the growth of a great manufacturing region should be understood by all Canadians. With the other provinces, it shares the tasks of development of agriculture and other natural resources, but upon none of the others does there seem to rest the burden of so laying the basis for a great industrial region that Canadian manufacturing may maintain its position in the face of the most efficient of its competitors in other lands. It is in the national interest that the governments of all the provinces should be assured revenues adequate to their several and great responsibilities. To none of them will this be of more importance in the future than to the government of this province. Our national





prosperity depends to a peculiar degree upon the way in which these responsibilities are discharged.

The chapters of this brief describe the main features of the Ontario economy and set out in detail the nature and magnitude of the financial obligations which face its government. It is hoped that in this way the Commission's consideration of our national productive potentialities and trends may be advanced."

I would then like to turn to Chapter three, sir, on page eleven, and in this chapter we have set out the growth in Ontario population - this whole chapter deals with what we have called a number of facets of the Ontario economy. Population and labour force -- now is it your wish that we should go over and summarize the population growth, the changes in the composition of each group and the aggregate population ?

THE CHAIRMAN : I think you might do it very quickly, because we will be studying these in some detail later on.

MR. GATHERCOLE : Yes; well since the end of World War Two Ontario's population has been growing at an exceedingly rapid rate. Up until Nineteen Forty our population growth was running around thirty to forty thousand a year - during the 'Thirties, thirty



five, thirty three thousand - around that much --- in recent years it has been averaging about a hundred and fifty thousand a year. The result of this rate is that our population is now running about five and a quarter million - and we anticipate that about Nineteen sixty or sixty one it will cross the six million mark. This rapid rate in recent years has, of course, come from immigration particularly, fifty per cent of all the immigrants to Canada have settled in Ontario; slightly more than that; many years fifty three per cent, and also an exceedingly high birth rate. Our birth rate is rated the highest level in the statistical history of the province, which in my mind is one of the real phenomena which has occurred in Canada. It has been general in other provinces, but it certainly is remarkable in this province. Our aggregate rate of population growth has been running somewhat higher than the whole of Canada, and about the total rate of population growth in the United States. The projections of population are set out on page twelve in five year age groups. We anticipate by Nineteen hundred and sixty our population will reach about five point nine millions, by Nineteen sixty five about six point six millions and by Nineteen seventy five about eight point two millions.





There are significant changes, too, which are occurring in the structure of the population which we feel have considerable implications, many of which will be brought out at later stages of the brief, but you can see from the chart which is on page twelve that there would be a sharp raise in the proportion of the aggregate population, which is in 0-Four age group, and which is a rough measure, though not quite, but a partial measure of the growth of the pre-school age group. This group in Nineteen forty one was only eight per cent of our population and in Nineteen fifty five is twelve per cent. That is a fifty per cent increase in that age group, and similarly in the five to nineteen age group, which forms a significant age group, in Nineteen forty one was twenty six per cent of the aggregate population and in Nineteen fifty five it was twenty four per cent. This, however, has been increasing, and it is expected to get up to twenty seven per cent in Nineteen sixty six, and to twenty nine per cent in Nineteen sixty five. So that there is an increasing portion of our population which is falling in the pre-school and in the school age groups.

Those sixty five and over, on the other hand, have also been increasing slightly compared with the past. Going back to Nineteen



hundred and one, with only five per cent of the aggregate population in the sixty five and over agegroup and in Nineteen forty one it was eight per cent and in Nineteen fifty five it is nine per cent and is expected to remain around eight or nine per cent in the future.

So the result of this growth in the population at the two ends of the population scale and particularly in the younger age groups, is a relatively smaller working force. As the Prime Minister has mentioned - and I should perhaps explain - in setting out our projection of the population, rather than project two or three lines out and hope we would fall somewhere with the actual results, we fell somewhere between these projections and we have taken what we consider to be a middle-course. That assumes a fairly high level of employment and a reasonable rate of immigration. We do make available our people though, who will go into the details and trends in the appendices in a more detailed study of this whole population and growth projection sir. Of course, as the Prime Minister said, the population may increase at a much more rapid rate than we have set out here, if immigration is greater than we have provided for. This was what we considered to be the reasonable course, but we put it forward as a projection and nothing more.





Dealing further with the population growth, I may perhaps make two references here -- one is to the fact that the population growth is occurring very largely in the urban or the suburban areas, but that the main concentration of population growth has been in the metropolitan areas of Southern Ontario, as is to be expected. Now the Prime Minister mentioned a minute ago, that Mr. Gardiner, in presenting his brief, had made projections of population which would indicate a rate of growth more rapid than the average Provincial growth. Now that does not mean that our projection and his projection are necessarily in conflict, because it is very likely that this area will grow in population at a more rapid rate than the rest of Ontario. If the annual population of Ontario grows as indicated in the projection, then the increase in the next twenty years will be about sixty per cent, as I say, to about eight point two million. These projections work out at an average annual rate of increase of two point sixty five per cent - in the first decade to Nineteen sixty five, and two point forty nine per cent--- I am reading at the first part of page fourteen -- in the second decade, to Nineteen seventy five and they appreciably exceed the two point fourteen per cent average annual rate of the decade Nineteen





forty one to Nineteen fifty one and the two point twenty one per cent rate for the period Nineteen hundred and one to Nineteen fifty one. They do not, however, ever attain the remarkably high rate of three point eighteen per cent average growth in the years Nineteen fifty one to Nineteen fifty five. That will give you an indication of the rates that we have taken for the projection of three million people which the projection adds to the population of Ontario in the next twenty years, which is to be compared with the two point four million increase which took place in the first half of this century.

I have drawn attention to the changes in the population and of course, the great implications they have, not only on the labour force and on industry, but also on education. I would then come to the labour force - page fifteen- and I think perhaps we can deal with this very quickly. The labour force, of course, has been affected by the trend to longer years of schooling, which is brought about to a large extent, by families being in a better position to keep their children in school and also the labour force has been affected by the early retirement of so many workers. Ontario's labour force runs about thirty seven per cent of the total



as against one third of the aggregate population. One of the striking developments in this picture, of course, has been the increase in the female labour force and the great numbers of women who have entered into working occupations.

The labour force in agriculture has declined very considerably - that is set out on page sixteen. The agricultural population growth continued until Nineteen thirty one, but in that year declines got underway which have gone on since that time. This of course, results from many factors: - the use of mechanical and electrical equipment and apparatus - appliances etc. and also the use of fertilizer - and the abandoning of farms; there has been a decline, not only in the employees on farms but a considerable decline in the number of farm operators. That is all set out on page sixteen - however, while the labour force has declined and the number of farms in operation has declined, the production has increased since Nineteen thirty nine by twenty seven per cent as a result of these electrical appliances and so on.

In Canada since the Second World War and in Ontario since the Nineteen thirties, manufacturing has been the largest employer of labour amongst the industries of the country. Now, nearly sixty





per cent of the total number at work in Ontario are engaged in manufacturing. The percentage of those employed in manufacturing has increased much more rapidly than in the rest of Canada. Although mining and forestry are not relatively large employers of labour, they provide a valuable counterbalancing labour demand during the winter months. This is especially true of logging, which complements farming in the northern areas.

The next part is power and fuel, on page seventeen -- of the importance of cheap power to the continued development of a manufacturing region, there was no question in the minds of those who, in the past, gave such effective leadership to the citizens of this province, in the creation of the great Hydro-Electric power system. Few today would deny them all credit for their far-sightedness. Ontario needs all the power that can be developed from its hydro-power resources and will probably absorb at an unexpectedly rapid rate the additional increment which is promised by Nineteen hundred and sixty. Other sources of power such as oil, natural gas and nuclear energy are also being developed. Research in the production of power from nuclear materials is being supported by the Ontario Hydro-Electric Power Commission and the Provincial Government.



Few aspects of the many-sided programme for the development of the Ontario economy which the government of the province must undertake are more important. The growth of the Ontario hydro, of course, has been tremendous, particularly in the last ten years - one of the remarkable sources of economic development anywhere. In Nineteen fifty five the commission's customers, municipal, industrial and rural, required more than four point two million kilowatts, equal to over five point six million horsepower. The commission, together with the local hydro utilities now serve more than one and a half million customers.

The expansion of the Commission's own generating capacity has been particularly rapid, as I said, in the last ten years - moreover, the programme is continuing. In the next five years additional generating capacity of one point five million to two point two million kilowatts will be placed in service, equivalent to that constructed in the first forty one years of Hydro's existence. By Nineteen sixty, the Commission's own generating stations will produce five point three million kilowatts or over six point six million horsepower.

This capital expansion has been, of course, financed not only by the Commission itself but by pledging the credit of the Province, which



has gone into the market, and on some occasions into the American market, and borrowed money for the hydro and has under-written, by its guarantee of interest and principal on hydro debentures.

In the last ten years - as set out at the top of page eighteen - you will see that the commission has expended on new construction, capital expenditures of one billion, two hundred and thirty one million, five hundred and ninety eight thousand dollars.

Now this expenditure is going to continue - Dr. Hearn will probably have a lot to say about that, but it is quite evident that it must continue, and the demands for financing the capital required will be very pressing.

Looking ahead, the Commission has made projections on two bases. As far as Nineteen sixty, the upper projection is assumed to be at the rate of growth of eight point twenty one per cent per annum experienced between Nineteen fifty and Nineteen fifty five - while the lower projection is based on a rate equivalent to five point fifty per cent per annum. After Nineteen sixty, both projections assume a rate of growth of six point fifty six per cent per annum, the long-term rate of increase from Nineteen twenty two to Nineteen fifty five. Thus, on the higher estimate, primary power requirements will be six point two





million kilowatts or eight point three million horsepower, in Nineteen sixty and twenty one point nine million kilowatts or twenty nine point three million horsepower in Nineteen eighty. On the lower estimate, these requirements will be five point four million and nineteen point three million kilowatts or seven point two million horsepower and twenty five point seven million horsepower, respectively. In brief, the Ontario Hydro was projecting an expansion of its facilities four times by Nineteen seventy five -- in twenty years - of its current resources.

In view of the gradual exhaustion of the province's own large hydraulic sites, only six of the remaining hydro-electric potential sources of power will exceed fifty thousand kilowatts - the commission, in the future, will be turning increasingly to other alternatives. While an addition to the Richard L. Hearn generating steam plant at Toronto is being projected, emphasis in the future will be upon power from nuclear sources and it is anticipated that by Nineteen sixty five a significant part of the required additional capacity will be provided from this source.

THE CHAIRMAN : We are looking forward, Mr. Gathercole, to the frugal luncheon that the Prime Minister has promised us - so what do you think of breaking off at this point - and re-convening at



two p.m. today ?

MR. GATHERCOLE, Certainly sir.

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Recess  
After Recess  
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THE CHAIRMAN : May we come to order  
now gentlemen ?

MR. GATHERCOLE : I think the Prime  
Minister expressed the position of the Government on  
natural gas - that he desires to see an all-Canadian  
pipeline bring these massive quantities of gas to  
Ontario - and with a view to achieving this objective,  
it has entered into an agreement with the Government  
of Canada which in turn, has entered into a greement  
with Trans-Canada Pipelines Limited under which  
Ontario pays up thirty five million dollars, maximum.  
The plans call for the construction of a thirty inch  
pipeline from Alberta to Ontario which is capable of  
a throughput of one hundred and ninety three billion  
cubic feet of natural gas, which is the equivalent  
of nine million tons of coal or thirty seven million  
barrels of oil per year. I don't think we  
need waste anytime about what they would do for  
Ontario and for Canada, to make that gas available.

Now turning to page nineteen-- on the  
subject of agriculture. As a result of inter-





national developments, the growth of our domestic market, mechanization and new scientific methods, the structure of Ontario agriculture, of course, has changed greatly over a quarter of a century, or the last half of the century. In Nineteen thirty one Ontario had one hundred and ninety two thousand farms - by Nineteen fifty one this number had dropped to one hundred and fifty thousand - a decrease of twenty two per cent. Now this decline has not resulted in any loss of productivity - production output - physical output - is up by twenty seven per cent - since Nineteen thirty nine and in many cases this is due not only to the modern equipment, but better use - the merging of two or three small farms together, and so on.

One of the characteristics of the new Ontario farm is the marked tendency towards specialization. Many farmers are now concentrating upon one crop or upon one division of the industry, such as a type of livestock. We find fewer farms keeping sheep or producing swine or cattle, even though the total numbers remain relatively constant. Export markets have always been an attraction to Ontario farmers, but the domestic market has gradually absorbed an increasing proportion of Ontario's farm production.



To some extent this is accounted for by the growing population in the border States of the United States and the local market is increasing steadily. For example cheese dropped from an export of over one hundred million pounds during the Second World War to a position in Nineteen fifty five where there was no surplus over domestic consumption. The total output of the dairy industries has remained fairly constant over many years, but the percentages of milk going into domestic fluid sales has risen substantially. This has been the effect of urban population growth. The Ontario farmer finds that his greatest advantage lies in the production of products like fluid milk and fresh meat, fruit and vegetables, which are both bulky and perishable. He has located close to the urban communities which provide the best markets for this kind of product and where the Province's highways and railways afford speedy, low cost transportation, which such produce requires. Here, prices are better because of more limited competition. On the other hand, the more concentrated products, such as cheese and butter - which can be shipped long distances economically - give Ontario producers less advantage.

Aided by good crops and rising prices, net farm income in Ontario rose rapidly during and immediately after World War Two, increasing from





one hundred that thirty two million dollars in Nineteen forty to five hundred and fifty eight point two million dollars in Nineteen fifty one, or about four times. In the same eleven year period the consumer price index had not quite doubled, hence, farm operators enjoyed a period of recovery from the highly competitive conditions of the Nineteen thirties and were able to rehabilitate buildings, retire a certain amount of their old debts, and make some progress towards realizing the amenities commonly associated with urban living. However, since Nineteen fifty one, the picture has changed considerably. Ontario's net farm income since that time has dropped to about three hundred and eighty million, or about thirty two per cent. This decline has brought a train of difficulties, particularly in some sections of the industry.

The fluid milk producers have not been affected as much - their situation has been reasonably satisfactory, but in other fields there are difficulties. The efforts to reduce unit farm costs have been immensely assisted by the increased use of mechanical and electrical machinery and equipment.

I might just turn for a minute or two to some of the statistics here -- whereas the cost of machinery and gasoline and so on has about doubled





since before the War, the incentive has been more towards labour saving machinery of all kinds.

The extension of rural electric power service has been a major factor, not only in reducing farm costs but also in bringing the amenities, or many of them, of urban centres, to rural parts of the country. The number of miles of primary line has doubled in the last ten years, while the total number of customers serviced has doubled in only the last seven years, reaching four hundred and seventeen thousand in Nineteen fifty five.

The wider use of electric equipment on the farm is clearly shown in the fivefold rise in electric power consumption by farm service customers in the decade, Nineteen forty four to Nineteen fifty four. Back in Nineteen thirty, fewer than twenty thousand farmers were connected for hydro-electric power; now, there are nearly one hundred and fifty thousand. That is a big programme, towards which the Province has financed rural power expansions up to fifty per cent of the cost. In pursuance of its policy of assisting agriculture, as I have mentioned, the Ontario Government contributed ninety nine million dollars towards the capital cost of these facilities in rural communities, during the past thirty five years, and of this amount seventy seven million dollars has been spent in the last ten years.



Despite the loss of twenty seven per cent of its agricultural workers since before World War Two, the physical volume of Ontario farm production has increased by twenty eight per cent. Output per agricultural worker in Ontario in Nineteen fifty four was therefore about seventy five per cent higher than fifteen years ago.

The growth in Ontario's agriculture is still basic to our whole economy and is definitely regarded as such - it provides not only life giving food for the population but also supports a substantial portion of our manufacturing and commercial enterprises - bread and bakery products, meat packing industries and things of that sort, which involve a certain manufacturing process and are all supported by our basic agricultural enterprise. The food and beverage industry in Ontario - as classified - has a selling value of output of about one point five billion dollars annually, illustrating the interdependence of agriculture with other industries, and services.

Today, although agriculture is in a better position so far as supply and demand balance is concerned than it was during the Nineteen Thirties ' it does face real problems in making adjustments.





And an additional complication is that the majority of practising farmers have entered the industry since Nineteen forty five and many do not have the resources to survive a prolonged cost-price squeeze. That is a very striking statement and as they have done so since that time, many of them don't have financial resources to sustain a continuing cost-price squeeze. And adjustments required can only be brought about and agriculture take its full part in the country's economic progress if farm operations are helped by suitable policies of adequate research, advisory services and encouragement given through improved marketing on a long-term programme, and the Government has been giving a good deal of attention to these matters.

Now Mr. Levine will deal with Mining and Forestry.

MR. LEVINE : Mr. Chairman, to deal with Mining on page twenty four - perhaps one of the most significant points which emerge from this section is the shift in the pattern of production in mining, particularly in the metallic minerals field. Here of course, the reference is to the absolute and relative importance of iron ore and copper and other base metals, and, of course, uranium of late. I say relative to the total output and relative to the position which gold has occupied heretofore.



Perhaps the most spectacular rise in value of production, as far as the Province's metallic minerals are concerned, over the past several years has been that displayed by the nickel production. It will be noticed that as far as value of output is concerned, Nickel output stood at four million dollars in Nineteen twenty one, and currently is almost one hundred and eighty millions. Similarly, with copper - the recent years have shown a tremendous expansion and so, too, that relatively new major factor on the Ontario scene - iron ore. The iron ore increase in value out put is from just under four millions in Nineteen forty five to over twenty millions of dollars in Nineteenfifty four.

Turning to page twenty seven, it will be noticed that where demand in the future for iron, copper and other important base metals is discussed, it has been projected that the demand for nickel will be one hundred per cent greater in Nineteen seventy five than it was in Nineteen fifty - and for copper -- this in the United States -- for copper and iron ore somewhere in the neighbourhood of forty to fifty per cent, greater in Nineteen seventy five than it was in Nineteen fifty. Then, too, in the rest of the free World tremendous increases in demand for these metals are anticipated. Ontario, it is hardly necessary to say, will participate in supplying





this greatly enhanced demand so that, when one looks at the level of mineral output as a whole, in Ontario, and particularly when the new uranium output is taken into account, the Province is undoubtedly assured of a considerably rising level of mineral production.

Turning for a moment to gold; gold, though caught in a rather difficult operating position between rising material and labour costs and stable prices for gold, has still managed, or the industry has managed, by a high level of investment, in making a very great advance in mechanization of mining processes and in other economies. However, today, gold although important, has surrendered its supremacy of place to nickel and of course is gradually yielding ground to copper, relatively at least. Nickel accounts for forty five per cent, by value, in metallic mineral production; copper currently amounts to over twenty per cent of metal output. Iron ore, to mention it once more, has been receiving immensely greater attention. To speak of Iron ore in Ontario is, of course, to speak of Algoma area and also of the Steeprock range of the Northwest part of Ontario. Very recently the production of iron ore began from a new source - the Marmoraton Mine in Eastern Ontario. It is expected that by about Nineteen Sixty Ontario will be producing Iron ore at the rate of over fourteen million tons annually; the current production is somewhat





over four million tons.

The greatest accretion, in recent years, to Ontario's known mineral wealth has been the discovery of widespread deposits of uranium. In fact, it may be said that the extent of the uranium ore reserves already outlined in the Province, together with the presently indicated further reserves, have made Ontario the possessor of the largest known uranium deposits in the world. The principal focal point of the search for uranium in Ontario has been the Algoma district, particularly the area east of Blind River; but another source of uranium is being developed in the vicinity of Bancroft, in eastern Ontario.

As far as the actual production of Uranium, Ontario got under way in September Nineteen fifty five and thus began a whole new phase in Ontario's mining history. What this phase will mean in terms of economic development in general and of actual capital investment in particular is already becoming apparent. A whole new phase in Ontario's mining industry was undoubtedly ushered in in Nineteen fifty five, as I have said, and to date about one hundred million dollars has been invested in the Algoma-Blind River area alone -- this aside from the very substantial amounts of public funds that have been expended.



As regards the latter, mention might be made of the approximately one million dollars which Hydro has spent in the area, the Province's commitment to share in the outlay for a new model town to be built at Elliot Lake, to serve the mines in the area, and the construction (already begun) of a permanent highway to serve both the new town and the mines. Yet another indication of how large a place uranium will occupy in Ontario's mining economy and in the economy of the Province as a whole is the value of the production purchase contracts that the Federal Government has already placed with Ontario mines for ore to be delivered prior to Nineteen sixty two; so far, these contracts total more than half a billion dollars and the amount is increasing.

Turning for a brief moment to Ontario's non-metallic minerals, three such minerals of some importance to the Province are salt, asbestos and nepheline syenite. As regards salt, the second largest rock-salt mine in Canada is located near Windsor. The Province has only one operating asbestos mine, that near Matheson, but other substantial deposits of asbestos are known to exist elsewhere. As for nepheline syenite, a compound of particular use to the ceramic industry - Ontario enjoys a North American monopoly of this substance.





With regard to Forestry - Ontario's inventory of standing timber reveals that the Province is in possession of exceedingly vast timber resources. It is the policy of the Ontario Government to adhere to a programme of limiting the annual cut of each tree species to an amount which will not upset the proper age distribution of the trees. Of course on this the regularity of future supply depends. Then too, the building of access roads facilitates the taking of this permitted amount from all cutting regions, and it is these two factors, timber management policy and also access road progress which are props to an expansionist forest production programme.

Based upon the forest resources of Ontario is an important lumber and wood-using group of industries and a huge and growing pulp and paper industry. Some indication of the paper output in Ontario is given in the chart on page thirty. The gross value - referring to lumber - in Ontario was less than twenty four millions in Nineteen forty five but by Nineteen fifty four it stood at well over sixty three million dollars. Of course, an inflation in prices has to be taken into account there but, nevertheless, there was an increase of volume during the decade following the war -- it now stands at well over, the volume of lumber manufactured that is, at well over eight hundred million board feet.



The manufacture of veneers and plywood is becoming increasingly more important in Ontario - it rose in value to almost fourteen million dollars in Nineteen fifty three.

The volume of pulp manufactured has also been very precipitous as far as paper production is concerned in Ontario. The volume of Ontario's paper output rose from about eighty six million dollars in Nineteen forty five to about two hundred and seventy two million dollars in Nineteen fifty four, an increase of almost two and a half times in only nine years. The most important paper item manufactured in Ontario, of course, is newsprint, which rose in value from under fifty million dollars in Nineteen forty five to over a hundred and forty eight million dollars in Nineteen fifty four. The values of Ontario's output of manufactured paper boards, book and writing paper, wrapping paper and tissue paper has also showed a steep rise since the end of the war. Paper board output rose from fourteen point four million dollars in Nineteen forty five and fifty two point six million dollars in Nineteen fifty four and that of book and writing paper from thirteen point four millions to forty one point six million dollars. During the above period, Ontario's wrapping paper production rose from four point eight million dollars to sixteen





point one millions and that of tissue paper from two point three million dollars to ten point nine million dollars.

Turning once more to lumber and wood-using group in Ontario - they will undoubtedly continue to face competition from various non-wood products for uses traditionally reserved for wood products -- whereas a wide variety of substitutes is in growing use. However, technology has enabled wood to reply so that one can say that the future of lumber - although it is somewhat more than just secure - in the United States the Stanford Research Institute in a report on the future demand for wood predicts that while the production of lumber will increase only moderately by Nineteen Seventy five - gives room to be optimistic, particularly when one considers that the principal demand for wood as lumber comes from the various sectors of the construction industry and the total value of construction in Ontario has been rising continuously since Nineteen thirty nine. This has been especially true of residential building, and it is this sector of the construction industry which is the most important single consumer of lumber.

The construction industry, moreover, creates a demand for the products of plywood and veneer mills, sash and door mills and hardwood flooring





mills, and of course another important demand for wood is created by the furniture industry. However, far the most important from the point of view of value of timber output, is the pulp and paper industry - in Nineteen fifty four, the pulp and paper industry in Ontario ranked third among the Province's industries as regards total value of production. The pulp and paper industry is primarily an export industry. Our best customer is the United States, and the most important product of the pulp and paper industry exported to the United States is newsprint, but since Nineteen fifty, our overseas exports have shown a steady rise to pre-war levels. Pulp, too, is an important export commodity - again with most of it going to the United States. While our exports of paper other than newsprint are significant from the promise of expansion they hold, they are not of relatively great dollar importance. So that, although the manufacture of newsprint remains of greatest importance in the industry, it is interesting to note that the output of mechanical and sulphite pulps has increased. A development of major significance in pulping, however, has been the growing significance of absolute and relative importance of sulphate, or kraft pulp. In the United States, the swing to sulphate has been phenomenal, especially since Nineteen forty five.



Packaging and wrapping paper have added to the demand for this type of paper - which demand has increased most significantly in recent years, in the United States and Canada too. However newsprint, as mentioned previously, occupies the key position as far as the paper manufacturing industry is concerned and the output of paper, especially paper boards, has displayed some tendency to increase. Now this is very important indeed from the point of view of the Ontario paper industry and is a most welcome development, in that an increasing proportion of the Province's total paper output has been gained by a diversity of papers - in particular, as mentioned, paper boards.

MR. GATHERCOLE : I will be very brief in covering the remaining parts of this first part, and I would again draw your attention to the tables in this manufacturing section, to which Professor Knox has referred in that they do bring out the very significant position of manufacturing in Ontario, and I would particularly like to draw your attention to the paragraph - the last paragraph in that section which says that the importance in Ontario of the raw material and food-producing industries is quite apparent. Nevertheless, the great bulk of the more advanced finished product





industries are concentrated in this Province and, in all likelihood, will continue to be concentrated here.

As on a rough estimate, about one-fifth of the value added in all manufacturing in Ontario and nearly twice that proportion in the rest of Canada fall in the class of extractive-dependent production.

Ontario clearly has a very important stake in these industries and in the primary industries upon which they are based; but far more of the advanced finished product industries are located in this province.

Thus, the methods by which we can achieve even greater development in these more complex stages of manufacturing are of interest and concern to all Canadians, for it is in large part upon such progress that our rising living standards depend.

Income and living standards we have referred to - and that is set out in the charts and so on - there is a fifty three per cent increase in consumption expenditure per capita in real terms as shown on the tables on page forty one and the increase in living standards in terms of living conveniences is shown on page forty two, and also the effect of these increased living standards on the rural areas of Ontario.

The percentage of housing has been another important factor in the economic activity of Ontario -- over three hundred and twenty thousand new homes were built, as set out in the table, between



Nineteen forty five and Nineteen fifty five - a subject to which the Ontario Government has given a great deal of attention.

Capital Investment follows now, and obviously has been a major influence in our expanding industry and production in Ontario. Nearly Nineteen billion dollars invested in developing natural resources and capital equipment - new plants - new factories, new homes, schools and so on, since Nineteen forty; therefore I come to Chapter Four, and I would start off with the expansion of provincial services.

Throughout the Second World War, the province had budgetary surpluses, and, like the municipalities, managed to reduce debt despite the fact that in the later war years, new and extensive commitments had to be met, especially in the field of education. Favourable budgetary balances were achieved as a result of deferring many important works of a developmental nature. It was essential during those difficult years to conserve credit and abstain from levying new or increased taxation; by so doing, the province allowed all available resources to be used in promoting production for military and civilian needs and, at the same time, prepared itself for the heavy, financial obligations which they were confronted with in the post-war period.





Then, since the war, of course, the Government began very rapidly to take intensive action in Ontario for provisions of sinking funds - highway reserve account for instance, rose from one hundred and twenty one point four million dollars in Nineteen forty five to six, to three hundred and thirty nine point four million dollars in Nineteen fifty four to five. Now adding the Sinking Fund provision and the Highway Reserve Account, would bring that up to four hundred million dollars -- in addition to that the Province has been spending about one hundred million dollars or approximately that amount, of capital, over and above that, and in view of the things that lie ahead there is no question that that expenditure will have to be increased; it is in the field of education that many of these major changes - which are striking changes - have occurred and Professor MacGregor will tell you in some detail about that subject. I would just mention one or two things about that, however, that the increase in enrolment in elementary and secondary schools now each amount to seventy thousand which is just double the annual increase in total population twenty years ago. That seems to me to be a very striking change. About fifty million dollars has been spent by the government of the province, to the municipalities directly, to assist in providing





school facilities each year. I would like to remark that to assist in meeting these costs the Province has had to revise its system of grants and to greatly increase those grants. It brought in a new system in Nineteen forty five and that has been increased ever since, each year, and last year they went up by ten million, in that year alone. These grants have therefore come up from about eight million dollars in Nineteen forty two-to three, to about seventy one million dollars during the past year and as I say, they are still increasing. Ontario's educational budget is now about one hundred million dollars a year - which is considerably more than the whole provincial budget before Nineteen thirty nine.

Similarly in regard to grants to the universities, those have also been greatly stepped up. Last year they totalled thirteen million dollars, which was an increase of nearly ten and a half million dollars over that paid just ten years ago.

Substantially larger expenditures have been provided for health, by new methods of providing assistance to the hospitals - new programmes for capital grants have been introduced, as well as maintenance grants, the capital grants having been inaugurated since Nineteen forty seven. These expenditures have come to a point where we have a Health Bill in Ontario now approaching sixty million



dollars a year, a very sizable amount. The figures are set out in the brief. Similarly in the welfare field, and the provision of assistance in regard to expansion at the Ontario Agricultural College and the Ontario Veterinary College, and other measures and facilities of this kind, there have been large expenditures.

The province has embarked of course, upon a huge highway programme and Professor MacGregor will also deal with that, and I need only make the comment that the province has embarked upon a large programme involving the expenditure on its part of one hundred and seventy five million dollars. Of course, the municipalities are spending a considerable amount as well - they come very close to matching what the province itself pays in municipal subsidies.

Trends in municipal finance is the next section, on page forty nine. Municipal expenditures - and perhaps I could eclipse that a little if I move over to page fifty where the statistics are set out - I don't think you will have any difficulty in following them. I would just stress this part - the municipalities were in a strong financial position when the post war expansion commenced, after the war, although faced with a heavy backlog of necessary maintenance, betterments and additions deferred during the years of depression and war. Their net





debenture debt had been reduced from a maximum of four hundred and forty six million dollars in Nineteen thirty two to three hundred and twenty five million dollars in Nineteen thirty nine, and owing to continuous repayment and little new borrowing during the war, it was down to one hundred and eighty two million dollars at the end of Nineteen forty six. In that year, the debt was only forty nine dollars per head, compared with one hundred and thirty eight dollars per head in Nineteen thirty two.

In the next eight years, the borrowings required for all manner of undertakings raised the net debt from one hundred and eighty two million dollars to six hundred and eighty one million dollars, an increase of no less than half a billion dollars in that eight year period. Seventy per cent of this increase took place during the years Nineteen fifty one to Nineteen fifty four. On a per capita basis the net debt rose from forty nine dollars to one hundred and forty dollars.

The figures at the bottom of that page in the table, compared with Nineteen twenty nine or even Nineteen thirty, show the position of the municipalities as looking very strong - no question about that. But, in the rising trend of taxes and net debt over the last half a dozen years, or the



last decade, I think there is a certain amount of concern. This is shown, I think, in a very realistic way on page fifty two in the table there, which shows the comparison of tax collections, and net debt by a percentage of personal income. Each is a percentage of net income - for instance, take the tax collections in Nineteen thirty two - the tax collections as a percent of the total personal income in Ontario amounted to nine point six per cent - that was higher than in Nineteen twenty six when it was six point two. It was gradually reduced and reached a low of three point one per cent in Nineteen forty six, and since that time has increased to where it is four point one per cent - but yet it is only half what it was in Nineteen thirty two, and still an increase over the very good year of Nineteen forty six, because of the very unusual circumstances which had prevailed earlier. Now taking a comparison of the net debenture debt as a percentage of personal income, in Nineteen thirty two that net debenture debt was thirty five per cent of Ontario's total personal income, which was higher than in Nineteen twenty six -- it dropped to a low of four point seven per cent in Nineteen forty seven and has gone up to nine point two per cent. So I think that does bring out in quite a fair way the trends in municipal finance. Of course,





taking these aggregates does not altogether explain the circumstances. Some municipalities have grown very rapidly and are faced with enormous obligations in providing sewer and water works and so on.

The next section covers the need for social capital and last year the Province, the Municipalities, the Ontario Hydro and other Commissions spent nearly seven hundred million dollars on new capital construction, maintenance and repairs. Highways and municipal roads formed a large part of this programme. The Province's appropriation for these purposes amounted to one hundred and seventy five million dollars which, when added to anticipated municipal expenditures of forty five million dollars, made available a total outlay on highways and local roads of two hundred and twenty million dollars. Large capital expenditures were made for electric power development and distribution, of which Ontario Hydro's share was one hundred and ten million dollars. Other significant capital expenditures included some sixty million dollars for schools and thirty six million dollars for provincial public buildings. All these expenditures on hospitals and so on are set out in detail.

I might mention sewerage and so on - it is anticipated that the capital cost for





Ontario over the next ten years - which can only be estimated on the basis of present costs - prices - salaries and wages - will be something in the order of seven to eight billion dollars and we anticipate three quarters of a billion expenditure per year - seven hundred and fifty million or three quarters of a billion dollars-- over the next ten years, annually. I now come to Education and I will ask Professor MacGregor to take over now.

PROFESSOR MacGREGOR : The problem of distilling what is already a distillation or condensing what is already condensed, is rather a difficult one, and if I produce a record which is not entirely to your taste, I hope you will realize that there is a problem here in a condensation, which perhaps I am not skilled in making. These chapters are, as it were, a bridge between the general introduction which has already been covered, - to be more particular, a bridge from the general material in the first part to the particular material which appears in the appendices and also, a transition from the literal rendering of the first part to the statistical rendering of the appendices, so that they hang somewhat between and for that reason, may not seem to fit too well into either section. I make this observation, sir, because I assume some responsibility



for the editorial work and I caution you that we enter here and in the appendices, into rather technical fields, where it is difficult to be clear and precise and brief in a single document.

There were difficulties, for example, in connection with the schools in determining how many children were at school, because there are various ways of measuring it - and in dealing with hospitals, there is a good deal of difficulty - as we will see - in deciding what is a bed, and so on. These technical and administrative matters need not detain us, but I must warn the Commissioners that it is impossible to escape altogether from some of the intricacies of the various administrative considerations that enter the problem.

We have been told a good deal about the growth of population - about its consequences on one activity and another - in the case of education our immediate concern is not with long-range prediction of population on which there may be a good deal of doubt - but with the ageing of the population now alive and, moreover, the ageing of the population at such low ages that they cannot be thought of as entering very much into immigration or emigration - there might be immigrant children coming in and adding to the numbers, but it is not very likely that there would be many emigrant children in the





near future. We would find a somewhat different account, I take it, when we are dealing with long-term predictions that involve persons not yet born or persons who might conceivably be living twenty or thirty years hence - in some other country. I think I should say that the arrangement of this chapter is in part governed by what is believed to be the comparative accuracy of prediction in the different fields of preliminary education - I think the accuracy from then on decreases - there will be a greater degree of accuracy in secondary education than in universities, again for the same purpose, probably, the treatment of education is more accurate than the treatment of hospitals, and the treatment of hospitals is perhaps more predictable than the very dynamic and somewhat uncertain field of road and other forms of transport. We proceed then from those things which can be dealt with, I suggest, with a good deal of confidence, to those where there are variables and the uncertainty is, of course, greater where a longer term prediction is necessary, quite apart from the immediate variables which are involved.

It is now commonplace that the number of school children has grown swiftly since the war and that many schools have been built or enlarged at great cost. The school enrolment of the future



can be estimated for both elementary and secondary pupils from the numbers and ages of the children now living, and from the anticipated course of birth rates. I might say that the material is not

presented for Nineteen fifty five, from which I might read, but it will be found in the appendix dealing with population and in the appendices also dealing with school children. The resulting forecast is more reliable for elementary than secondary pupils and for the near than the distant future.

For all elementary schools in the province, the following increases over the present level of eight hundred and eighty thousand pupils are estimated; an increase of one hundred and ninety three thousand pupils by Nineteen hundred and sixty, a further increase of two hundred and five thousand by Nineteen sixty five, a further increase of one hundred and seven thousand by Nineteen seventy and a further increase of one hundred and fourteen thousand by Nineteen seventyfive.

You will notice how the increases start at a high level and become somewhat smaller as time goes by - owing to changes in the age position.

The increases are twenty two per cent to Nineteen sixty and forty five per cent to Nineteen sixty five. Further details are given in the table which you will see on page fifty five, which also refers to secondary schools.





The estimates are necessarily in the form of totals for the whole province. I might say sir, that this is a matter which appears in a sort of system throughout, for the purpose of condensation -- we have to take in the provincial total but we are very conscious in so doing that we blur over the great differences of the situation in different municipalities; in the discussion on municipalities that has been mentioned and it is a problem. The estimates are useful for forecasting the number of teachers, the capacity of teachers' training schools, and the total number of additional class rooms that will be required and hence the total capital cost involved. It is not possible, however, to predict very far in advance the exact point at which the need for further accommodation will be most pressing. The word "exact" is to be emphasized there because it applies to the actual place at which a school must be located - it is not simply the municipality, since particularly primary schools must be located within walking distance of homes when a municipality makes a decision to develop - one or two or three or four hundred acres in one place rather than two; - a distance of half of mile away would govern the location of a primary school. These things are very difficult to anticipate in advance - this has been described to you also by the





Metropolitan Corporation and I think I can slip over this section, to be dealt with elsewhere. Recognizing the difficult problem faced by many growing municipalities, the Province of Ontario has increased its grants for schools from six million dollars in Nineteen thirty one and twenty nine million dollars in Nineteen forty six, to some seventy one million dollars in Nineteen fifty five. Recently, moreover, the province created a new type of municipal organization, the Municipality of Metropolitan Toronto. This new body aids education in its thirteen member or area municipalities by a system of grants or assistance payments at so much per pupil, and by guaranteeing up to a certain sum, the debentures issued by the member municipalities for the erection of new school buildings.

I here run over the section referring to the proportion attending schools referred to in table A-Thirty on page a hundred and fourteen in the appendices, which shows the rising proportion of high school or secondary school age group - going to school - we felt it wise to predict this proportion to a somewhat higher percentage of the whole group over the coming years.

Returning to the experience of the province as a whole, the growth in school attendance



resulting from higher birth rates has thus far been confined to the elementary schools. The greater numbers of children who began coming into the world after Nineteen forty one are only now beginning to be promoted from the primary to the secondary level.

Several years ago, it had been expected that the birth rate would fall back to pre-war levels after the "baby boom" of the Nineteen Forties. A corresponding change in school attendance would naturally have followed after an appropriate interval. It now appears, however, that the increase of births is more permanent than had been supposed. In graphic terms, the recent curve of birth rates per one thousand population has the appearance of a plateau rather than a wave of hump, for the rise which began after Nineteen forty one and was suddenly resumed at the close of the war has not levelled off as many had expected. In the first rise of fertility during and immediately after the war, the number of births in this province advanced from about sixty four thousand a year to almost a hundred and nine thousand over only eight years; then, in the second rise, which began in Nineteen fifty, births rose steadily from about a hundred and nine thousand to last year's record of about a hundred and forty thousand, or more than twice the number of Nineteen forty.

Not far behind the children born in





the early war years are their younger brothers and sisters, born in the middle and late forties and still attending primary school. Each September, between sixty thousand and sixty five thousand of these children will be admitted to the lowest grade of the increasingly crowded secondary schools, as compared with only about forty four thousand a decade ago. I may say that these figures will rise progressively - it is not just at the level of sixty to sixty five thousand but gradually rising numbers of entries which cannot freely be described here.

Even larger numbers will begin to enter the secondary schools about the year Nineteen sixty five - as the still more numerous babies of Nineteen fifty one and later years, begin to reach the age of fourteen. More pupils call for more teachers as is shown in table twenty, on page fifty eight. For elementary schools, the estimated increase over the next ten years is some thirteen thousand teachers, an expansion of about fifty per cent. For secondary schools, the comparable increase is about six thousand teachers, an expansion of no less than ninety per cent, almost twice the rate of expansion at the elementary level. In other words, the increase in the number of secondary teachers needed in the next decade will be as great as the whole net



increase effected over the previous half century. If the need for teachers is to be met, greater numbers must be trained in the normal schools and in universities. So great is the need that it will doubtless call for policies designed to promote both professional training and mobility, -as well as recruitment of those most likely to remain in the teaching profession. The total number of new teachers to be trained must necessarily be greater than the net addition to the teaching staff since many teachers are lost to the profession through marriage and departure for other occupations. I need hardly stress the implication of this on the later discussion of the universities -- I may add that measures to promote professional ability have already been taken by this province. To accommodate the growing masses of students, very heavy capital expenditures will be required. The capital cost per pupil will rise, moreover, as the new construction becomes increasingly concentrated on secondary schools, where the average capital cost of providing an additional "pupil place" is about one thousand four hundred dollars as compared with only six hundred dollars in elementary schools. From table twenty one it will be found that by the year Nineteen sixty the primary schools must be expanded to hold some twenty two per cent more pupils at an





estimated capital outlay of some one hundred and sixteen million dollars, while the secondary schools must be expanded almost forty five per cent, with an estimated outlay of one hundred and six million dollars. The very heavy cost for additional secondary schools results from the combined influence of the greater costs per pupil and the more rapid increase in enrolment.

The combined burden of operating costs and capital charges will naturally become much heavier as the anticipated expansion proceeds. I don't think I need detain you with the details of this, but I would like to draw your attention to the table on page fiftynine -- Number twenty two - which shows the staggering total of four hundred and two millions in Nineteen seventy five, which may be the sum required to carry on all of Ontario's ordinary school expenditures of Nineteen fifty four to Nineteen fifty five. I might suggest that the total of municipal ordinary expenditures in the appendix which deals with school enrolment and costs - could be used to develop certain sections of what is to be the percentage.

I now come sir to universities and colleges which, four or five years after the larger numbers of youngsters have entered secondary school, will begin to feel the effects in the size of freshman classes in universities and colleges. This





phase will begin about the year Nineteen sixty. In the universities, however, the forces which govern the size of the student body are more complex than in secondary or primary schools and hence a forecast made on the basis of population alone is of limited value. At present, the enrolment is increasing for reasons other than the larger population of student age. I might say here, sir, that this serves to illustrate what was indicated at the outset, that we proceed from comparatively simple and relatively sure predictions to those with a great number of variables, and with perhaps a little less confidence as to the figures, but no doubt whatever as to the prediction of the movement we are anticipating.

Ideally, an estimate of future enrolment should take careful account of the anticipated demand for graduates, preferably in each occupation, since the demand probably has as much influence on enrolment as the supply of potential students. Ideally too, an estimate should recognize that the number of those able to bear the cost of higher education varies with the circumstances and inclinations of their parents, the opportunities for employment, the cost of living, the weight of taxation, and other things. Whatever the role of these various forces, the number of students has tended to rise, not only in absolute terms but as a fraction of the



population of student age. The proportion of those of student age - that is, eighteen, nineteen, twenty and twenty one years, enrolled in universities has increased about two-thirds since before the war, and has now reached seven point five per cent. Table twenty three on page sixty shows the proportion of students - excluding veterans, which is a rather important characteristic of the table - in relation to the population in the age group of eighteen to twenty one - inclusive. It shows that the proportion has risen from four point sixty four in Nineteen thirty one to seven point forty nine or seven and one half per cent approximately, in Nineteen fifty five. We have anticipated a further increase in this proportion over the next twenty years. The growth in this percentage has persisted through good times and bad, though not always at the same rate and strongly suggests that a greater proportion of young people will attend the universities in the future. With diffidence, and for want of a more detailed estimate, which would command assent, a projection of university enrolment resembling that already given for secondary schools is given in Table Twenty Four. I don't think I need to elaborate on that before a commission which includes two University Presidents, but I think it is necessary





for the continuity of the argument that at any rate it be set down, and I would suggest that it illustrates the role of unused capacity in estimating future growth, and we are faced with a difficulty which is rather hard to provide for.

Turning now to the growing size of the student body to the costs involved, it is clear that both operating costs and capital expenditures will rise as the number of university students increases over the years, but the amount of the increase is peculiarly hard to estimate. Some university facilities are already overcrowded and expansion is now overdue. In others, where important extensions have been made in recent years, there is room for considerably larger numbers with little increase in either current or capital outlay. This estimate of the situation recalls the experience of the post-war period, when the enrolment of returned soldiers more than doubled the student body in three years. Here and in other parts of the section on education, sir, I should say that we are not making any allowance for the possibility of higher prices in the future. The present prices, as far as we are able to approximate them, are made the basis of valuations. The table No. twenty five, shows the history of current expenditures and table twenty six shows a forecast of the future current expenditures by



applying twelve hundred dollars per student to the estimated enrolment. Most of the subsequent increase in operating expense per student, as compared with Nineteen forty one may be traced in the present as in the past, to the rise of prices, wages, and salaries of teaching staffs, as shown in the table which gives the pre-war and post-war share in the cost of living and it may be added that the annual expenditure per student at the present time is about twelve hundred dollars, a figure which, as I have mentioned, is used in subsequent calculations.

Perhaps I will go quickly over the figures -- the estimated enrolment in table twenty four - a total of forty five thousand three hundred university students in Nineteen sixty five as against twenty one thousand seven hundred in the present year, is an increase which obviously calls for heavy increases in capacity at one point, or whatever unused capacity which may exist today. The very great increases found after Nineteen seventy, bringing the estimated total to ninety two thousand six hundred, reflects the very high birth rate of the fifties and the taking of a larger proportion of young people who have been born in the last five years as being likely to attend university. This involves the assumption that the rising proportion already displayed will continue until it reaches the level a





little higher than that now existing in this Metropolitan area but not much beyond that.

The projection of capital expenditures is also subject to important reservations. I think I need not develop this, again, in the presence of yourself and your colleagues sir, and pass on to the closing paragraphs in the section on universities on page sixty three. The province is grateful for the assistance granted the universities by the Government of Canada, starting in Nineteen fifty two. It wishes also to recognize the more considerate treatment of students' parents in the income tax amendment of Nineteen fifty three, which raised the age limit for dependent children. A comment may be made here upon university endowments, which are of special importance to private institutions. It appears that although the capital involved has increased greatly since Nineteen hundred and forty, income has not risen in proportion, while its buying power has fallen, so that the contribution of endowment income to the principal private universities of Canada is now only about sixteen per cent of their whole receipts as compared with the thirty seven per cent in Nineteen thirty one. It may be desirable to consider the effect of taxation on the granting of endowments with a view to restoring their importance.





I now pass on to Chapter Six, dealing with hospitals, the first section of which provides some of the essential description of the organization of the hospitals- their ownership and so forth -- which may be used for reference purposes. The mental hospitals are dealt with first, and they are under the direct operation of the province. Their cost per patient day is relatively low, as many of the patients are chronic or incurable cases - more than half of them having been in hospital more than five years. A much larger share of the cost is necessarily paid from the public purse than in the case of the general hospitals. The total amount of accommodation provided in the seventeen provincial mental hospitals was only five or six per cent less than in the much more numerous and smaller public hospitals combined. The staff of the mental hospitals, was, however, only about one fifth as large.

I think in the interests of saving time, I will leave the descriptive matter which appears here. But the amount of the capacity provided, in a mental hospital is commonly referred to as a unit of one hundred thousand population, and it raised noticeably during the 'thirties - it held steady during the war - it might have been thought that this indicated no further capacity other in response to the general growth of population -unhappily is not so, for the accumulated needs are greater and there are waiting lists to prove



that many of the people who are still now outside the mental hospitals would be accommodated in them if space were available. Facilities have been crowded since the war, when the newly built and largest hospital, at St. Thomas, was loaned to the armed forces. By the time this structure was returned to the province, the rapid growth of population had more than overtaken the available space. Despite the major increases in hospital capacity in Nineteen fifty, Nineteen fifty one, Nineteen fifty four and Nineteen fifty five, the number of people requiring mental treatment has been so great that the pressure is only now beginning to be eased.

Some remarks are made on the conjectural number of mental patients in the whole population. Necessarily a conjectural matter, and dealing with a certain number of border line cases, based on the experience in the United Kingdom and the United States at the present time. At present, however, Ontario's population contains an unusually large number of young people. Because of their youth, they are happily less prone to most forms of mental illness than their elders, although not free from congenital mental deficiency. A standard bed requirement, derived from other populations having a higher average age than Ontario's must, therefore, be modified when applied to this province. Ten to fifteen years hence, on the other hand, the maturing





of Ontario's now youthful population will be accompanied by a marked increase in the number of mental patients. It seems probable that Ontario's population contains as high a proportion of those who are either mentally deficient from birth or epileptic as other areas. Whether her population also contains as large a proportion of psychotic persons - that is to say, those with mental illness proper - as that known to exist in other areas is harder to estimate. An appraisal of these and other considerations has led those in charge of our mental hospitals to estimate that another three thousand beds, over and above those now provided and soon to be available, are now required.

Here follows a description of the various construction projects providing additional bed accommodation and other facilities for the mental hospitals, either completed or nearing completion. Major projects are nearing completion including new facilities at Smiths Falls, Toronto and Port Arthur. The Smiths Falls Hospital will contain two thousand two hundred beds and the largest hospital school in Canada. Major projects are underway at Brockville, Kingston, Woodstock, North Bay and elsewhere.



The patient population in residence in Ontario's mental hospitals has risen from fifteen thousand in Nineteen forty six to twenty thousand at the present time. Provincial expenditures have risen sharply in recent years. Ordinary expenditures increased from seven point two million in Nineteen forty five to Nineteen forty six to around twenty one point two million dollars in Nineteen fifty four to Nineteen fifty five; capital expenditures in the ten years up to Nineteen fifty five to Nineteen fifty six will amount to an estimated forty six million dollars of which no less than thirty seven point three million dollars will have been spent in the last five years. It should be noted that federal grants are included in the capital expenditure figures.

Then follows a description of the changes in the character of the patients in mental hospitals - a greater number of people who stayed for short-term treatment - and a larger fraction of the community has received hospital care in each year. Another aspect is the growing number of old people to be found in the hospitals - the proportion of elderly patients --at the top of page sixty seven-- over sixty five years of age has mounted from thirteen point six per cent in Nineteen forty three to nineteen point six per cent in Nineteen fifty four. The





rate per one hundred thousand of population aged sixty five and over has advanced from six hundred and thirty five to eight hundred and ninety one over the same period, an increase of almost two-fifths. More recently there has also been a sustained rise in the rate for the next lower group, those aged between fifty five and sixty five.

Then there is a projection which indicates if the tendency continues that there may be in ten years' time nine thousand five hundred persons resident in mental hospitals aged fifty five and over. Of course, the mental hospitals and homes for the aged, provide a certain amount of nursing and custodial care to great numbers - probably some thousands of people - now in the mental hospitals or homes for the aged, where hundreds more may be expected and where the capital cost would be somewhat lower, although operating costs may not differ very greatly. A forecast of the expenditures on both ordinary and capital account for mental hospitals is summarized in table twenty eight. The accomplishment of this capital programme will serve to bring mental hospitals along in proportion to the growth in other fields, and also to raise distinctly the number of beds in relation to the whole population to accommodate many fringe cases which may be expected to





develop.

There is next a section on the tuberculosis hospitals where the outlook, Mr. Chairman, is a very much happier one. The outlook for tuberculosis hospitals, which contain about one-fifth as many beds as general hospitals, has been greatly altered by recent advances in medical treatment. The death rate among tuberculosis patients has been reduced during the past eight years to only a quarter of its former level, thanks mainly to the introduction of powerful drugs. I think I can say, I hope without slighting the work of the tuberculosis hospitals, that they have been so successful in their work that there is now reason to hope that some of their beds can be used for some of the other purposes described here.

Changes in medical practice have been affecting all hospitals, but it is too soon to estimate the effect of new drugs for treating mental diseases on the number of beds required, but where these changes do show is in the case of tuberculosis where we feel it might justify the statement that the amount of capital required will be reduced in proportion to the population.

The section on public hospitals which commences at the bottom of page sixty eight deals with commonly thought of hospitals but excludes all those



hospitals operated by the Department of Veterans' Affairs and the few hospitals that are operated for Indians by the appropriate Federal Department.

There is so much detail in this section that I think I should not try to weary you with it but come at once to the matter of capital grants on page sixty nine and to this somewhat shrunken term - chronic beds - convalescent beds and so forth -- there seems to be under way a tendency to use this rather unusual expression to describe beds for the chronically ill, and other patients -- but grants are paid as shown in the table -- one thousand dollars for each bed for active treatment in the general hospitals -- all beds that are being used in the general hospitals are called active treatment beds apparently. Two thousand dollars each for each bed for the treatment of the chronically ill, two thousand dollars for each bed in convalescent hospitals and three hundred and thirty three and one third dollars for each -- a rather nice description -- for nursery bassinets. One thousand dollars for each nurse's bed, and two thousand five hundred dollars for tuberculosis beds and three and a third dollars for each square foot of floor area in the case of out-patient and auxiliary services accommodation, or fifty per cent of the cost, whichever is the lesser, eight thousand five hundred dollars for





each psychiatric bed and eight thousand five hundred dollars for each detention bed or the difference between the grant payable by the Federal Government and the actual cost, where the latter is less than ten thousand dollars, whichever is the lesser.

Further special grants have been paid to hospitals providing some special treatment facilities. For example, four million dollars has been paid to the Ontario Cancer Treatment and Research Foundation towards the Ontario Cancer Institute now under construction in Toronto, three million dollars to the Toronto General Hospital towards the cost of the thirteen story special services wing now under construction, and one million dollars to the new Hospital for Sick Children. The amount of the grants which have been paid in recent years are shown in table thirty - that is to say, capital grants, in which there is a great increase in the amount of the contribution for capital expenditures to the hospitals over the last eight years, as seen in the amounts which were paid to the hospitals on the part of the Province in addition to the amounts paid for maintenance under certain programmes and also for overcoming certain special maintenance difficulties, which are shown in table thirty one, following beneath on page seventy, and which likewise show very large increases.



The extent of construction which has been assisted by capital grants is shown in the small table at the upper left hand corner of page seventy - where it will be seen that from the end of Nineteen forty seven to the end of Nineteen fifty five, approval was given to construction programmes involving accommodation for twenty three thousand, one hundred and thirty six beds to which should be added three thousand seven hundred and fifty seven

bassinets. I think I might just pass over some of the detail which is presented on page seventy and come to the pertinent questions in connection with the future. I might say that it seems absolutely necessary to establish the position we are now in, in situations of this kind, because without establishing clearly what the present situation is, it is very difficult to present forecasts of finances very much at variance; the pertinent questions for the longer term future are how great the demand on the hospitals will be, how much it will cost the hospitals to provide the service required and from whom and on what basis they will obtain their revenues.

With your permission, I will cover this next part in detail because I feel it is very important -- the answers to these questions depend on each other, hence predictions cannot be very accurate. The demand for service, that is, the number of people





who seek admission to hospital and the average number of days of care they require - depends in part on whether the individual pays his hospital bills directly or through an insurance organization. It has been the experience of hospital pre-payment or insurance systems, both private and public, that when patients' bills are paid through an insuring organization the hospital admission rates increase. Up to a certain point, this is to be expected and even desired, for there can be little doubt that many patients at one time or another need hospital service which they cannot afford without the protection of insurance. Beyond that point, however, an increase in the number or amount of claims is an abuse and, in any future arrangements, it may be desirable to introduce the commonly employed methods of co-insurance and deductible features as an automatic restraint.

The payment of personal hospital bills through the agency of insurance organizations has now become very important in Ontario. No less than forty nine per cent of the charges of one hundred and forty five principal hospitals in Ontario -- and I may say it is not all paid -- it pays the greatest number for which there is a reliable record - and this constitutes sixty seven or seventy million of revenue--about ninety five per cent of the total ---in Nineteen fifty three were paid on behalf of patients by the various





insuring organizations, including the provincial Workmen's Compensation Board.

Coming now to the cost of hospital service; much depends on the type of service provided. General Hospitals are extremely costly to build and to operate. Hospital care for convalescent and chronic patients can be provided at roughly half the cost of general hospitals, per patient day, at about six dollars, I might say for a patient day, as against twelve dollars - I am using the average, - while their capital costs are also lower in about the same degree. An economical system would preserve a suitable balance between the more and the less costly facilities while meeting the needs of patients more adequately. In the larger centres of population, this should be practicable and greater emphasis on lower cost facilities is anticipated in the forecast of hospital construction below.

If total hospital expenditures were to rise appreciably, owing partly to the extension of hospital insurance coverage, the hospitals would require a corresponding increase of income. The governments of Ontario and its municipalities are already deeply committed in the field of hospitals of all types - including mental and tuberculosis - to the extent of some eighty million dollars a year, to which should



be added twenty million dollars for other activities relating directly to health. Their total annual expense for these purposes is thus about one hundred million dollars, which is about one-third of the yield of all local property taxation. In view of this one hundred million dollars already being spent and the still larger sums that will be needed five, ten and fifteen years hence, and in view of the great sums also needed for education, roads, sanitation and other purposes, these governments will not be able to contribute to the required increase of hospital income, - this is on the assumption of a great rise in hospital expenditures; -- unless they can secure appropriate additions to their own revenues.

As regards future facilities, emphasis will have to be placed on the need for more convalescent and chronic care beds. In the field of public general hospitals, where most of the present capacity lies, rather large additions are now being made. Within two or three years, most of the accumulated need for this type of hospital will have been met, the subsequent programme for the years Nineteen fifty eight, Nineteen fifty nine and Nineteen sixty being required mainly to meet future population growth. The capacity of the public general hospitals, if





supplemented by other facilities, should be able to satisfy the larger demand which would result from an extension of a carefully designed hospital insurance plan to all the population.

Under a comprehensive system of hospital insurance, the greatest proportionate expansion in demand for services may be expected in smaller centres where hospital insurance has not hitherto been important. The additional capital cost which might result from such an expansion is not known.

The estimates of future costs assume that before the completion of the present programme for public general hospitals, the emphasis will be shifted to the erection of less expensive buildings for convalescent and chronic patients. The total annual increase in capacity is thus expected to continue at about present levels until Nineteensixty, but the capital cost per person or per additional bed, that is to say, the renewal amount that is added in total - is expected to fall as more buildings of the less expensive type are erected.

A programme for out-patient diagnostic services and home care was suggested at the Federal-Provincial Conference in October, Nineteen fifty five. These programmes were designed as elements of a broadened hospital insurance plan and



as a further means of reducing the demand for costly in-patient care.

The projected capital expenditure on public general, convalescent and chronic care hospitals in the four year period Nineteen fifty seven to Nineteen sixty, is between sixty and seventy million dollars. It provides for an increase in active treatment beds from twenty seven thousand one hundred and fifty in Nineteen fifty seven to twenty eight thousand, seven hundred and fifty in Nineteen sixty. Over the same period, it is anticipated that the number of convalescent beds will rise from six hundred to two thousand, one hundred and the number of chronic care beds from four thousand three hundred and sixty five to five thousand, eight hundred and sixty five.

Table thirty two presents some of that information in detail. We now go into the larger project of a hospital plan of the type now being discussed; As regards the total cost of a comprehensive hospital insurance plan, it should be observed that the estimated costs assume an economical combination of facilities of the types already indicated. It is the view of the Province that a comprehensive hospital service plan should include as benefits the cost of hospitalization for mental illness and tuberculosis as well as for





ordinary illnesses.

On the basis of the estimate of beds available and projecting costs from the Nineteen fifty to Nineteen fifty four period, the costs of a comprehensive hospital care plan would approximate one hundred and sixty five point five million dollars if introduced in the year Nineteen fifty seven, and reach two hundred and twenty eight million dollars in Nineteen sixty. This excludes the cost of mental hospitals and tuberculosis sanatoria. Only a part of these sums would represent a net increase in expenditure for the community as a whole, since patients are already paying either directly or through insurance organizations for a large volume of ordinary hospital services, while governments are also making a substantial contribution. The net increases in expenditure would come from rendering a larger volume of hospital services to those not receiving adequate care today, most of whom would in turn be contributing to the plan on the same basis as others. There would thus be mainly a redirection of existing private expenditures through public channels, while the benefits of insurance protection would be more widely enjoyed. The amount contributed by the ordinary individual would be uniform over the years rather than fluctuating according to the extent of his or his family's





illness.

Expenditures for the services of hospitals of the magnitude indicated need careful examination. In view of the desirability of equalizing standards of services among provinces, and equalizing costs among taxpayers of varying incomes, substantial sharing of costs by the Federal Government would be essential.

Now sir I come to the chapter seven which deals with highways and roads - we enter here into a field which is particularly hard to estimate in terms of the future and we have used a method which has not been used hitherto - the distinction between future expenditures described as "backlog" and future expenditures described as "future". The difference between these two classes of future expenditure will, I think, become clear as we go along; the first section deals with the various affairs such as demand for highways, and I will try to compress this as much as I can, but there are a number of rather important references here that I should mention.

The demand for highways, like the demand for railway and other public utility services, comes from many quarters. Motor trucks and other commercial vehicles form what may be called the hard core of road traffic for which there is no known substitute. They are the freight carriers of local



trade, just as trains and cargo vessels are the freight carriers in the commerce of nations. The whole of the immense tonnage of agricultural produce is moved away from the farms entirely by way of local roads. The millions of tons of coal and oil used as household fuel in towns and cities must be delivered to the consumer by road transport, while construction materials, which are among the heaviest articles of commerce, must be handled in a similar fashion. Again, all food, clothing and other merchandise bought in retail shops must first be delivered to merchants by road transport.

Thus, it is no exaggeration to say that the whole flow of merchandise into consumption, however far it may have come by sea or rail, must also travel once or twice - one might add at least -- over local roads before it reaches its final destination in the hands of the consumer. This will be true no matter how perfect the facilities for rail-borne and water-borne freight may be. In the course of handling these great tonnages, the movement of trucks and vans may sometimes be a hindrance to the drivers of fast passenger autos. At times, too, it may be necessary for government to check the tendency toward the use of commercial vehicles which are too large or too heavy for the roads. Nevertheless, it must be emphasized that the provision of highways





and urban streets capable of handling this essential commercial traffic, and of assuring the rapid movement of ambulances, fire-fighting equipment, police cars, and other essential vehicles, is one of the main cares of provincial and municipal government.

Part of the daily movement of passenger autos is likewise indispensable. It includes a substantial part of the passenger vehicles on the roads, such as those of farmers and other country and suburban dwellers, commercial travellers and others whose occupational needs cannot be met by buses or various forms of rail transport. The future demand for highways from its large and diverse field of commercial and essential private vehicles is probably linked very closely with the physical volume of business.

The remaining demand for highways comes from other quarters, and is more variable. For many persons who live within towns and cities and do not employ a vehicle in making a living, the ownership of a passenger car is to some degree optional and the extent to which it is used varies greatly from person to person. There are, of course, some types of passenger movement in private cars for which buses and trains do not offer an effective alternative. These comprise various types of traffic which fan out over



a large area at one end, or both ends, of a busy main route. Such is traffic movement between the market towns and the farms: it proceeds part of the way from town by main routes and then gradually scatters over the vast mileage of township roads. Some of the traffic from large cities to their more distant suburbs is of the same kind. Such, too, is the movement to northern holiday resorts in the summer, where traffic proceeds over densely travelled roads for twenty five, fifty, or a hundred miles and then spreads out over a great number of subsidiary roads in such areas as Lake Simcoe, Kawartha Lakes, Rideau Lakes, Muskoka and the highlands of Haliburton, Hastings and Renfrew. This is a peculiarly intractable problem, for most of the added traffic, which causes serious congestion, occurs on only a few days of the year, and, despite its sporadic nature, requires heavy additional investment. Such are some of the problems of designing highways and roads to meet the needs of the people.

Then follows a percentage of the increase in motor vehicles and motor traffic in recent years and some explanation of why there is a substantial backlog of highway construction at the present time. During the 'thirties the growth in motor traffic outstripped the improvements in the highway system, and





even this programme, however inadequate, had later to be curtailed under the imperative necessities of war. From Nineteen forty five on, the situation was aggravated by the unprecedented rate of increase in the number of Ontario motor vehicles - particularly heavy commercial trucks - the growth in motor tourist travel, the rise in construction costs and the shortages of labour and material.

Although both dollar and real expenditures on Ontario highways have increased at a remarkable rate since Nineteen forty five, the volume and weight of motor traffic have increased at an even faster pace. The net result is that serious congestion exists on certain main highways and urban thoroughfares, particularly in southern Ontario, resulting in considerable inconvenience to motorists and a hindrance to industry and commerce. Rectification of this situation will require programmes of highway and street improvement, involving both the province and municipalities in greatly increased expenditures extending over many years.

A short description of the different types of road follows - you are reminded of the total mileage of highways and rural roads being seventy four thousand plus seven thousand miles of urban streets - and that they range from earth roads





of which all are fortunately - or almost all at least - are improved as to drainage - to the most modern type of highway.

There has been very little increase in mileage since Nineteen forty one - which is rather important - it is the mileage we are concerned with - through the various jurisdictions, and the mileage in the hands of each (page seventy seven) - where we estimate that out of eighty one and a half thousand miles of road there are some almost fifty thousand miles of road for the organized townships. The scale of provincial subsidies paid to these various jurisdictions is also shown in the table - thirty six - and range from thirty three and a third in the case of certain subsidies to as much as eighty per cent. In regard to bridges in county roads as much as a hundred per cent for certain bridges in organized townships. Then there is a table at the bottom of page seventy seven which summarizes motor vehicle registration and in regard to passenger vehicles there are two and a third as many passenger cars as Nineteen forty five, almost three times as many commercial cars as in Nineteen forty five and all vehicles increased two and a half times - but in the case of commercial heavy vehicles they increased fifteen times since Nineteen forty five - on the right hand side of the table (thirty seven)



- it shows the number of heavy commercial vehicles  
- that is to say, over ten tons. All parts of Ontario have shared in this growth. Vehicles licensed in cities are now about two or three times as numerous as a decade ago. For counties and districts, including towns and cities, the average increase is somewhat less; in every county and district, including a few with almost stationary population, the increase has been at least fifty per cent and, in thirty one out of the whole fifty three divisions, the number of motor vehicles has more than doubled since Nineteen forty five. Our point here is that this is by no means confined to the Metropolitan area - the rate of increase in the Metropolitan area is great, but as will be seen the increase from city to city and county to county is remarkably uniform. That is to say, that with the great increase in the amount of vehicles and so on, all over the province, the point is being reached where dense traffic has begun to be experienced over a great mileage that hitherto was quite lightly travelled and where there was no problem at all. The increase in density was surprisingly large - in the vicinity of the smaller cities of the province particularly.

The increase in the number of heavy commercial vehicles weighing more than ten tons is especially striking. They are more than fifteen





times as numerous as in Nineteen forty five-- as we have mentioned -- and have increased over five times as fast as all commercial vehicles. In general, commercial vehicles cause special additional construction and maintenance costs. If I may introduce a cross-reference here, Professor Knox made a special reference to the role of heavy commercial vehicles in bringing in products of the smaller manufacturing plants - in the production of complex products which are now produced in this province, and he described the considerable role of these vehicles and the highway costs involved in accommodating them. There are economic advantages - important economic advantages - in providing that sort of transportation over a relatively short distance.

At the top of page seventy nine reference is made to the studies of traffic density which have now been carried on over a good many years in this province and it will be an important aid in comparisons of the province in various places - it is not possible to go into detail here - but the studies reveal that, at certain times of the day, almost all of the principal highways of the province suffer from moderate to extreme congestion. The situation is similar in the chief urban areas and their vicinity. Some idea of the volume of motor traffic which certain roads are now obliged to carry may be obtained from a



traffic count at West Hill, one half mile to the west of King's Highway Number Two - West Hill lies about twelve miles from the boundary of Toronto proper - and more motor vehicles pass this point in ten days than there are in the whole Province of Manitoba. One day's total at this point exceeds all the motor cars in Prince Edward Island and four days' total almost equals the number in New Brunswick. Moreover, there are other sections of Ontario highways such as on the Queen Elizabeth where the density of traffic is much greater again. This is not offered, sir, in any sense of boastfulness, but rather to describe the extraordinary density and the extraordinary amount of difficulty and congestion involved in passing such a great number of vehicles, which is unavoidable with the geographical structure of this area, for instance, along the Lakeshore, because of the presence of the lake and the extremely marked concentration of traffic in both east and west directions. Because of this the province is now involved in very heavy capital expansions to be mentioned in a moment.

In the light of these circumstances, we have projected the expenditures required to alleviate the present congested condition of highways in the province. The amounts proposed may seem large in view of the volume of highways and road





construction accomplished since Nineteen forty five, but it should be remembered that throughout the past quarter of a century, the attainment of an adequate highway system has been checked by successive events beyond the control of the province. Since the end of World War Two, a considerable mileage of four-lane highways has been built and nearly four thousand miles of heavily used gravel roads have been finished with concrete or bituminous surface. So rapidly has traffic mounted, however, that this construction, large as it has been, has made little headway against the backlog that existed in Nineteen forty five.

Table thirty eight presents what I referred to in the beginning as a backlog expenditure, expenditures, that is to say, required to make up for deficiencies that were already apparent in highways, apart from the accommodating of future growth. For the county and township roads, whose combined length exceeds sixty three thousand miles, or about one quarter of the distance to the moon ---

THE CHAIRMAN : Is that part of Ontario?

PROFESSOR MacGREGOR : Well I am not informed sir - I will have to take that under advisement. Studies of traffic densities and requirements are not yet far enough advanced to justify estimates.





I may say that the extension of the mileage to the rest of the distance is not included in the estimate of future requirements sir. It has, however, been indicated that the present backlog of expenditure on county and township roads might approximate two hundred and thirty million dollars. I think that the astronomical distance involved is part of the reason why fuller information is not available on that. The comparable backlog of expenditure on urban streets is believed to be in excess of half a billion dollars - five hundred million dollars. This makes a combined backlog of just under one and three quarter billion dollars or one billion, seven hundred and fifty millions, for all highways and roads. These figures must, of course, be regarded as preliminary and subject to revision.

It will naturally take some time to bring this work to a conclusion, but, by the time it is completed, traffic will have increased still more, and further work and expenditures will be required.

The next section deals with revenue which I think I should leave as it stands, because it has serious implications for the argument. The ability of the province to bear the cost of constructing and maintaining highways is naturally



influenced by its receipts from motor traffic.

Over the years, these receipts, which are derived almost entirely from the gasoline tax and motor vehicle licences and drivers' permits, have increased at much the same pace as provincial highway expenditures of all kinds. Since Nineteen forty five to Nineteen forty six, however, receipts have fallen short of expenditures in all but two years. At table thirty nine on page eighty one - there is presented the relevant information, the last two columns showing the excess of receipts over expenditures on the left and the excess of expenditures over receipts on the right. Total expenditures have exceeded total receipts over the ten year period by more than twenty six million dollars.

In the combined operations of the province and the municipalities, the shortfall of highway revenue is much greater than that shown in the provincial accounts alone - and I think that it need hardly be added that this is an important qualification, the municipalities having no revenue of their own from motor traffic other than minor sources such as fines, parking charges and, in some cases, carrier licenses. Their chief access to highway revenues is through provincial subsidies, which rose from less than nine point five million dollars in Nineteen forty six to forty four million dollars in





Nineteen fifty five.

Now there finally appears a space which perhaps should be lengthened in proportion to the sums involved, but would involve a great deal more detail than could conveniently be presented here - a statement of future needs in relation to accumulated needs or backlog. Providing the anticipated growth in population and motor vehicle registration materializes, the volume of motor traffic - (and here we take off from the population forecasts and apply a somewhat larger percentage of motor vehicles per one hundred population - gradually rising to not a very high level above today - some fifteen years hence) - over the next ten years, in terms of vehicle miles, is expected to double. With more and heavier vehicles - (and this is not simply the number of vehicles I may add -- the number of vehicles times the anticipated mileage driven per year) - we must, therefore, expect substantial increases in capital expenditures for new highways and also for general maintenance. Altogether, expenditures for highways and municipal roads could approximate two and a half to three billion dollars over the next decade.

An index in terms of vehicle miles is given in table forty -- I need hardly say that it is not possible to indicate the anticipated locations



of the traffic very accurately - but I think that they follow to some extent from the anticipated locations of the population, along with whatever channelling of traffic inevitably follows from the geography.

I think, sir, that is all I should present now; there is available for your inspection a consolidation of this information on the basis of the anticipated investment, per thousand of additional population, for beds, for schools, for universities and for roads and a number of other things, which is not printed in this submission but could be made available to you if you would care to see it, as a short summary of the section I have presented.

THE CHAIRMAN : Thank you very much Professor MacGregor.

MR. GATHERCOLE : Mr. Chairman, may I just take one or two minutes?

THE CHAIRMAN : Yes, certainly.

MR. GATHERCOLE : I don't intend to read chapter eight because the Prime Minister has done so already, but I would like to call your attention to one or two points. In my rather hurried journey through the municipal section, I did not mention the importance of the province's assistance to the municipalities -- there is a paragraph there which deals with





that - it shows that for example, the province's assistance has grown in about a dozen years from eight millions to one hundred and fifty two millions and that assistance annually is about equivalent to one third of the province's own ordinary budget. It is also equivalent to about fifty per cent of the municipal tax levy - in addition to the assistance that is provided and included in that, is the legislation which the province itself pioneered in Nineteen fifty three, providing for payments in lieu of taxation on government properties. I think that that is a novel Act in Canada.

I would also mention to you if I might, that there is in the appendices, on page one hundred and thirty two, a section there dealing with water resources and sewerage, which is a very important problem in Ontario and a growing one. Throughout the appendices in general there is a great deal of material which is not contained in the Submission part one - and part two - and I would hope that the Commissioners would be able to read the appendices as well.

THE CHAIRMAN: Thank you very much Mr. Gathercole, - I suppose we would like to spend a couple of days asking questions, but it is perhaps better for us to study the submission at





liesure and to have any further questions that might occur to us put to you through the Staff; however, there are some things that we might discuss now, to advantage, I think --- It was clear that the Prime Minister and yourself, and Professor Knox, in his statement, emphasized the importance of secondary manufacturing activity in this province.

I must say, that despite the fact that I have lived here most of my life, I was impressed with some of the charts and figures - for instance, that manufacturing accounts for seventy per cent of the net value of production - or did in Nineteen fifty three, - and the very important place it takes in providing employment for an increasing working force in this province. It seemed to me that many of the

tables -- but perhaps if I had to single one out I would take the table no. five on page thirty six, emphasizing pretty clearly some of the things that this province depends on. I think both Mr. Frost and Professor Knox and yourself emphasized or expressed the view, that manufacturing - which is so important to Ontario - requires, in your opinion, very heavy outlays from the Provincial and the Municipal Governments, for facilities of all kinds, and that certain of these services, for example, super highways or, to use the Prime Minister's example - a tunnel under the Welland Canal, may be



less necessary in less highly industrialized and complex parts of the country. I dare say that some of my colleagues will have questions to ask on these subjects, so I will confine my own questioning to some of the subjects which Professor MacGregor has dealt with. We have heard from one end of the country to the other, the emphasis on the need for more highly trained people in Canada and the fact that this requirement will increase. You have pointed out the estimated increase in enrolments which are anticipated in the secondary schools in Ontario and the costs involved - which seem staggering. I was particularly struck by what this means in terms of additional teachers - as indicated in the table on page fifty eight, the question I would like to put is, what are the main obstacles in the way of obtaining those teachers going to be, and what are the chances of success ?

MR. GATHERCOLE : Perhaps we could ask Dr. Althouse if he would throw some light on that subject - he is the Director of Education for Ontario and has all the answers.

DR. ALTHOUSE : The problem you have propounded really falls into two parts - the provision of teachers in the elementary schools and the provision of teachers in the secondary schools. Then





there is also the equally difficult problem of securing adequate staff for the higher institutions of learning above the secondary schools.

In the elementary school field, this province, like so many others, has had to have recourse to a sort of "train as you go" programme by which teachers are recruited and are given a start on their training and are then required to return for more training and are sent out into the schools for further teaching, and I think this part of the emergency programme, as we call it, is unique to this province. We insist upon all these people who are so trained coming back to the Teacher Education College for a whole year before they secure a regular teaching certificate. Now that programme has succeeded very well in filling the gap that is required, until the teachers' training institution catches up with the enrolment of the elementary schools.

For several years now - and for a few years in the future - recruits for teaching to go to our teachers' colleges - come from a shallower pool - smaller pool of potential candidates than is usual, because of the low birth rate at the time the seventeen, eighteen and nineteen year old people were born, but we are overcoming that gap by the



emergency plan that I have mentioned to you; we are now turning out from the teachers' colleges for the second year in succession, the finishing group of the people who started in the emergency training programme. We sent out some two hundred and seventy of those people last year and they were eagerly taken up by the school boards. Reports on them in this, their first year of teaching with full qualifications, are good so far.

A larger number of that group will go out this year. Of equal interest to us is the fact that the emergency plans of partly training teachers, letting them teach and then bringing them back to complete their training, seem to be recognized by the people at large as exactly what they are-- emergency plans, to be dropped when equilibrium is obtained and they apparently have not reduced the percentage of the teaching profession, because we also have in our teachers' colleges a one year course, to which is admitted students who have secured grade thirteen standing in our secondary schools, and for a good number of years this teachers' college course attracted about eleven or twelve per cent of the previous summer's graduates of the grade thirteen course. At present, that group in the teachers' college rates about eighteen per cent of the grade thirteen graduates





Now of course, it does seem to me that this is probably the place to introduce one major reason for the rising percentage of the teaching profession and that is the better salaries that are being paid. The last ten years have seen very substantially increased teachers' salaries and I think that has a good deal to do with attracting these high school graduates with full high school courses to the teachers' colleges.

In the secondary school field the problem is being met at the moment by vigorous prosecution of the ordinary training programme open to university graduates - a one-year course at the College of Education and in addition to that, last summer the University of Toronto offered a ten-week course to graduates who had secured teaching positions for which no fully qualified candidate had appeared. Four hundred and eighteen of these were secured last year and are now in the schools. The University of Toronto College of Education has a substantially good enrolment again this fall - so that apparently we gained well over three hundred teachers by that means last year.

Then, too sir, we should point out that for a number of years there has been a considerable movement of fully trained and well qualified





teachers coming from the old land and seeking positions in this country. We are glad to give such people letters of standing and allow them to teach on such a letter of standing for one year, then, if their performance is satisfactory, we simply give them interim Ontario Certificates without further ado and they enter the ordinary teaching force. There are nearly a hundred such teachers every year and their number appears to be mounting. So far, then, we have managed to keep our heads above water.

I might say sir, though, in the secondary school field particularly, we are concerned with the inability to recruit first class honours graduates in science and mathematics - these people are in so much demand from business and industry that so far, teaching positions have not been able to offer rewards adequate to attract them in anything like enough numbers to fill the vacancies. Not even to provide replacements for the people who are there already, and that, sir, is our greatest anxiety at the moment.

THE CHAIRMAN: Thank you Dr.Althouse; There is another question that arose in my mind from looking at your estimates of increased university enrolments -- and also from your remark about the physical side - the question of unused capacity. I



should not be the one to raise this subject, with so much talent along these lines to the left and to the right of me -- but I suppose people in this country have been thinking for some time about the practicability of changes in the length of the academic year - so as to get more use out of their expensive physical plant and equipment which is needed now in certain fields -- has anything developed along those lines - or is it just an idea?

DR. ALTHOUSE : May I speak to that Sir ? The problem you have raised is one that has received the very serious consideration of the Department of Education and of associated Departments in this Government, and was raised by our Minister very recently in a conference with University Heads. I can't say that there is any definite progress except that we are alive to the problem.

THE CHAIRMAN: I had better not ask any more questions about the educational problems --

PROF. MacGREGOR : I think it may be added to what Dr. Althouse has said that experiments up to 'Forty Five showed that within the existing academic year it was possible to stretch somewhat the facilities by increasing the number of hours in the day during which lectures are given, and extending the numbers of days in the week. A little more





flexibility there than in the secondary schools - I gave lectures in Convocation Hall at eight o'clock in the morning for several years, and was conscious of the problem.

THE CHAIRMAN: You will remember what Mr. Grauer said last night about his experiences in academic life and finally he decided to leave the hurly burly of academic life for the peace and quiet of a business career - you had better not go too far along those lines.

MR. GATHERCOLE : I may add that there is a reference to this matter in the appendices - operating universities on a year-round basis in order that the facilities might be more economically utilized - this would involve the changing of terms and teaching schedules.

THE CHAIRMAN : Speeding up the unfortunate Professors ?

HON. LESLIE FROST : It is a matter of getting more Professors interested, by paying them a little better, too.

THE CHAIRMAN : We are getting there.

HON. LESLIE FROST : That statement is an old prejudice.

THE CHAIRMAN : It may be an old prejudice, but it shows the trend of the times perhaps.



MR. GATHERCOLE : There is reference there too, to technical schools. There is no detailed discussion of that - it is left unresolved, but nevertheless it is a reference to the thinking that is going on as to how this problem is going to be met.

THE CHAIRMAN : I want to ask a question or two about the municipal financing problems of the municipalities, about which we have heard a very great deal. There have been all sorts of addresses about the various and many difficulties in which the municipalities find themselves, from one end of the country to another, and it has been pointed out to us that too much is needed, or too much is demanded, in the light of the limited tax revenues available to the municipalities. We have heard a number of proposals in this regard -- I would like to know what the views are in this province. It has been suggested in other places that the Federal and the Provincial Governments, or the Provincial Government, should assume full responsibility for such things as insurance and relief of unemployed, health and social security benefits of all kinds, and in some places it has been suggested that the Provincial Government should assume the full cost and full administration of education. On the capital expenditures side it has been suggested that there should be a re-activation -- I am thinking of an Act called the Municipal





Improvements Act - or something of that kind - I think it was in effect in the late 'Thirties. The Provincial Governments, it was suggested in some provinces, should provide for the cost of sewers and sewerage disposal - which is a problem everywhere although it is particularly acute apparently, in some places. It was also suggested that on the revenue side, the municipalities be permitted to tax federal and provincial properties. I know that in Ontario grants are given to the municipalities for the full amount of the assessment on provincial buildings. It was also suggested that municipalities should be exempted from sales tax on their purchases and on Monday, the Chairman of the Toronto Metropolitan Council raised a suggestion--I don't know if it was one of the things that the Premier was speaking of - that the Metropolitan Toronto problem might be solved by a ten dollar tax on automobiles. It is certainly one of the subjects we are hearing very much about and we think has much bearing on the future developments in the municipalities and the things they are responsible for. It would be very helpful if you could give us your views on these matters - I don't want to get into the whole question of Federal-Provincial Tax arrangements, but to concentrate if we can, on the municipal field only ?





PROF. MacGREGOR - There are in this room many who are much more conversant with the intricacies of this subject than I am -- and, I think, rather than attempt to answer that at all on the general principles, I will throw the ball to them.

MR. GATHERCOLE - Perhaps, Mr. Prime Minister, you would like to say something about that?

HON. LESLIE FROST : It is all right - you fellows go ahead and see how well you can do.

MR. GATHERCOLE - I will start off then, and you can get me back on the track if I get off the rails sir. Concerning the first matter of transferring more and more of the cost of municipal services to the province, that of course has been going on now for a great many years - for twenty years there has been a progressive transfer of many of these costs and some of them are detailed in this submission, but in many of these matters there are local administration problems, that require local administration. So as long as that is the case and the economies must be realized in that way, you must leave the Municipalities in for a sizable part of the cost, otherwise there is no incentive for them to economize. Concerning the second matter, the matter of loans to municipalities to undertake various projects, I know that matter was raised at the



technical Committee of the Federal-Provincial level - by some of the Western Provinces, who felt that there were very similar problems where the smaller municipalities found it very difficult to obtain funds and there was a suggestion made that the Bank of Canada should take a role or some active part in popularizing the municipal needs to investments houses - or persuade investment houses to look at the needs of these local municipalities. I think myself that something might be done to resurrect that Loan Council - to take some action, and I think there is a very strong case concerning legislation for reimbursing the municipalities for tax - free government properties. I think there is a strong case for them. In Ontario, legislation does do that very thing sir; that is all I can say.

THE CHAIRMAN : I want to turn now to the question of transportation. I was very properly impressed by the magnitude of the backlog for the future that Professor MacGregor talked about - "one and three quarter billion dollars" on page seventy nine, and it would seem to be in question, as he suggested, with the anticipated increases in motor vehicle registrations - whether this will be only a beginning. I suppose it follows that we should do our utmost in Canada to be as efficient and as





sensible as we can be in the whole field of transportation and highway construction. When we were in Montreal last week Mr. Donald Gordon presented some very thoughtful suggestions as to the changes that may be made in the present arrangements with the railways, so that they, in his opinion, could serve certain areas which they are not now serving, because of competition. He pointed out the differences in the -- and he qualified these statements very carefully -- but he did point out that on the basis of averages, railway freight is very much cheaper than shipping goods by trucks -- now he was very careful to point out that that didn't apply in all cases -- it depended on the route and so on - but he had done a good deal of thinking on the subject and his suggestion was quite impressive. On Monday Mr. Gardiner suggested that it would be very considerably cheaper as far as Toronto was concerned to extend the rapid transit system than to rely entirely on greater use of the expressways, in fact he suggested that one dollar spent on rapid transit would be equivalent to five dollars spent on expressways. I don't want to ask for specific answers to those particular questions but I would like you, or Professor MacGregor or Professor Knox, to see whether you think there may be opportunities for very substantial savings



by looking at this transportation problem as a whole to a greater extent, perhaps, than has been done ?

MR. GATHERCOLE : From the standpoint of the province, it appears to me to be one that the province derives or the Ontario Government derives revenue or taxes from the sale of motor vehicle licenses, thereby receiving the revenue with which to construct and maintain these roads. From my own personal view, it does seem to be entering into an unusual field for it to embark upon a policy involving payments for public rail transportation.

THE CHAIRMAN: Oh - I wasn't suggesting that you should do that!

MR. GATHERCOLE : The implication is that somebody should subsidize it.

THE CHAIRMAN : I was not suggesting that the Provincial Government should subsidize a national system of transportation -- that would be going further than I was prepared to go - I was thinking of a rapid transit system - subway--

MR. GATHERCOLE : I am thinking of a rapid transit system as well.

THE CHAIRMAN: Oh, I see.

MR. GATHERCOLE : But these other matters of providing assistance to the municipalities involve the province being in a fiscal position to





do it. For example - providing grants for assistance to the municipalities - does involve the province being in a position where they have the financial capacity to undertake it.

MR. STEWART : I would like to direct one or two questions to Professor Knox, arising out of his presentation; at the outset of your summary of the sections from the brief, you referred to the determinants of the standard of living -- the efficiency of the production of those things which we export, and the terms of trade for those things, and thirdly a point which you so specifically dealt with, the question of efficiency on the domestic manufacturing scene - would you care to express any opinion or view regarding the terms of trade - external terms of trade - for raw materials in the future ?

PROFESSOR KNOX : I don't think, Mr. Commissioner, that I have any particular knowledge that would make my opinion more valuable than the general view that the growing scarcity of raw material probably suggests that the trend would be favourable to us for some period in the future.

MR. STEWART : Supposing that is so, has that any particular significance or implications for our trade policy ?





PROFESSOR KNOX : Well so far as my argument was concerned, I think you could say this - could you not - that if we have favourable terms of trade there would be an additional advantage of very great significance in helping us to overcome the difficulties and inevitable handicaps of Canadian Industry - which it is bound to operate under - vis a vis, competition from the United States on the one hand and low wage countries on the other.

MR. STEWART : I am referring to page thirty five of the brief -- I think the substantial part of this section was really summed up in the statement that National policy cannot be offered as an explanation of the concentration of industry in one province rather than in another. I don't wish to appear to dispute the arguments in this part of the brief at all, that is to say, that there are natural and historical factors tending towards a concentration in Southern Ontario, but on the other hand, is it not true that the instance of the tariff is to shift distribution in the use of resources in the direction of accentuating the use of resources in those areas, in which there is a tendency to concentration?

PROFESSOR KNOX : Oh yes, I am not



arguing that the national policy cannot affect the proportion of use of resources in manufacture by contrasting industries - I was merely arguing that that can't account for the distribution of manufacturing regionally -- we are able to be less affected by national policy than is commonly argued.

MR. STEWART : I don't wish to dispute the general argument, as I say; we seem to be agreed that nevertheless, this is, or has been a factor contributing to the degree of concentration apparent in an area in which there are natural tendencies towards concentration ?

PROF. KNOX : Oh yes, I would accept that.

MR. STEWART : Yes, there are tendencies - I don't like this word 'concentration' - I always was afraid that there is some emotional content in there - but there are tendencies towards concentration and there are factors also, contributing towards de-centralization. Somewhere in your Brief, I have forgotten the exact page now, there is a statement which seems to suggest a variety of activities - as being desirable. There is a reference to variety and balance in the economy - and let us suppose that that is a good thing, would you feel that as a matter of general policy there is a case





for the role of government to assist in those factors which are tending towards de-centralization - if anything - in order to secure some of the advantages of a more balanced and varied economy in certain parts of the country ?

PROFESSOR KNOX : Well, if I may express my personal view rather than that of the brief, as I think that question has not been discussed here -- I would say this, partly for non-economic reasons, a variety of employment opportunities in the country seems to me to be desirable. It has some costs - it may diminish productivity per man if it is, in particular, subsidized. Whether or not you should go that far, by national policy, as to attempt to influence the regional distribution of the manufacturing which affords these opportunities, I think that is a distinguishable question upon which I wouldn't like to express an opinion.

MR. STEWART : It seems to me that if there is a case on the basis of diversity -- variety and balance - which is good for the concept of the nation as a whole - perhaps it has some validity in terms of regions as well ?

PROF. KNOX : I think it has but surely you should not go to the extent of freezing off people - the existing population distribution -



that would be to make that the dominant consideration in the policy, which I think it should not be.

MR. STEWART : Not freezing! I wonder though, in listening to your discussion, whether you would agree that - or perhaps I should ask, is it not so that the total problem today is a problem of development and of the amount of our resources which we can apply to support expansion, and whether we may be trying in our anticipations, to put ourselves in the position where we cannot in fact take care of the tremendous developmental costs which involve delayed returns for many years, or if, perhaps, we have to rely more heavily on dealings from outside in order to accomplish this ?

PROFESSOR KNOX : Well, the latter certainly eases the problem - no one ought to be under any illusions that the provision of the social capital necessary to fulfil the sort of programme I suggested this morning, is not going to be costly. That means it is going to use up some resources which might alternatively remain where they are, serving other industries - but I would feel that this is essential to be done in order that we may be sure that our resources may grow and in order that we may be able to afford yet more, not only here, but in all the other Provinces of Canada. The





very basis of my argument was that unless we did certain things the efficiency of each labourer's efforts will be less, and therefore, the resources from which we can draw to fulfil these requirements would be diminished. Surely you can apply the simple criterion - although this is a critical matter -- that nothing succeeds like success. If we don't do these things we shut off the resources out of which if we do do it, it might be financed.

MR. STEWART : We have not had an opportunity - and I presume you haven't either - to relate this judgment with regard to investment to gross national product - to see what is involved there; I wanted to ask one question about agriculture - a general one, if someone would care to take it on --

PROF. MacGREGOR : Pardon me sir - but may I say in connection with your questions that a little, very effective, work on this matter relating to projected needs for social capital, has been done which is not included in the printed material but which may be of interest to you. I think it has considerable interest because it deals with efforts made in Australia some years ago, closely associated with the name of Douglas Copeland - it may not apply to Canada in each case, but I believe that the actual facts that we have recorded in this Province





is the start from which one can build up, piece by piece from the various sources we have dealt with -- as of course is done in business, by improvement capital, as is well known. All I want to say now is that some efforts have been made to go into that matter and I think there is an interesting comparison to be made with the Australian figures--their conclusions have gone somewhat further than ours and they were made about five or six years ago.

MR. GATHERCOLE: I am afraid that the representatives from the Department of Agriculture have left -- but it may be that someone here can answer your question Mr. Stewart --

MR. STEWART : No -- I will get it in another way -- we can leave it today.

MR. GUSHUE : I have one question - the table on page thirty four showing the production by classes of industries - Ontario and Canada -- are there any figures to show how much of the Ontario manufacture has gone into the Canadian export trade - either as an average in any particular year or are those figures available I wonder -- just as a matter of interest ?

MR. GATHERCOLE : To my knowledge they are not available. It is possible that rough



estimates could be made - but certainly not the exact figures.

MR. GUSHUE : I was just wondering what the contribution was -- I didn't know if the figures were available or not.

PROFESSOR MacGREGOR : May I say sir, that fifteen years ago the Rowell-Sirois Commission made enquiries of a similar kind and the results are presented in the appendices prepared by Professor McIntosh -- at that time. At that time the enquiries were directed to, primarily, the sales from Ontario to other parts of Canada, but I believe that the export sales were included in that - at the time - although of course the figures are out-of-date.

THE CHAIRMAN : We would like to carry on this discussion for a long time but I think we probably should not do so - and we should follow it up by letter. So I suggest, gentlemen, that I would like to conclude by thanking you, Mr. Prime Minister, and your Government and all these gentlemen, for producing a most valuable document which will be of very great help to us indeed. I would suggest we have a five minute break, and then hear from Dr. Hearn.

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Recess  
after Recess  
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HON. LESLIE FROST : I would like to say Mr. Chairman, that we would be very glad to make available to you, in your deliberations, these gentlemen here - we make them available to you, or any information from our Departments. We have endeavoured to have these gentlemen take a very objective and unregimented view of our position here in Ontario. And you will have seen, I think, from what Mr. Gathercole has said and I think some of the others, that their thinking has not been directed at all - we wanted a fair and a reasonable situation to be presented to you, as such. Now as I say, we are interested in the work of your Commission but, to an extent - and I will be frank in saying this - as "one for you and one for us" - - we are anxious to see this problem of ours - we want to know where we are going and what we should do - and we would like to take the advantage of thinking of those who are just enough removed from the scene that they are not like the rest of us, in having difficulty in seeing the woods for the trees. So that is about it. I may say that if you want to discuss these things with any of these gentlemen later, we would be very glad to give you full resources that we have, and you can look into these things and form your own conclusions.

THE CHAIRMAN: Well that is very generous of you Mr. Frost and we will take advantage of that opportunity.



THE CHAIRMAN : Dr. Hearn, would you like to proceed ? I will mark your submission No. 140 for the record. I can think of no better opportunity that I will ever have to remind us that the one and a quarter million dollar expansion programme which the Ontario Hydro Commission has conducted over a ten year period-- I think you will agree Mr. Prime Minister under the very able direction and management of Dr. Hearn -- is the largest expansion programme conducted by any single organization in Canada since the War. I sometimes think that that factor is not remembered enough when we talk about Kitimat and the iron ore developments and the pulp and paper developments and so on -- this organization has a much bigger job now.

HON. LESLIE FROST : Before you go on with Dr. Hearn, I will say this -- I wouldn't want you gentlemen to feel that the tenor of our submission to you is that we regard ourselves as the most important part of Canada. Please don't think that. We think you will see - from our having put before you the magnitude of our undertakings from all angles in this province - that this is a huge thing - as will be Dr. Hearn's submission; nevertheless we only regard ourselves as part of Canada - all parts are important and I wouldn't want you





to feel as some might feel - and as in fact one of the Press men mentioned to me since this matter was introduced - that perhaps the feeling may be that we regarded ourselves as more important - or regarded Canada as being a sort of appendage to ourselves. That is not the point - we regard ourselves as an appendage to Canada. We think we are just part of the picture - we are just one more province - and I think that if I just express my view to you and to those whom you are associated with - you will appreciate that we want to be fair. I didn't just follow your question Mr. Stewart, to Professor Knox -- I have expressed this publically, in fact, I might say in one of our General Elections, that we would like to see the decentralization of industry - we were anxious to get more industry; the more diversified their position is, the more independent they are and they are also stronger.

There are disadvantages to huge concentrations of industry - frankly you can have too much of a Metropolitan Toronto, and we could have some in other parts of Ontario - Lindsay and places like that. But I do want to say that we regard ourselves as a partner in the Canadian Confederation and we are one province - we want to do our





best and to contribute to the well-being of everybody - including ourselves. I just wanted to leave that point of view with you, as I said, there were some criticisms and objections to that statement in the General Election, but the people seemed to agree with me.

DR. HEARN : Now Mr. Chairman and gentlemen - I appreciate having the opportunity to come here today and I trust you will pardon the sign boards I have put up -- I am violating the Highway Act by putting them up Mr. Premier, but I have put them up because I was unable to give you this in the charts that are attached to the short brief, and also in Mr. Gathercole's presentation in the government book. I didn't intend to repeat the discussions on the ground which Mr. Gathercole has covered in the government submission, but I thought it would be helpful if I were to give you some background as to how this Ontario Hydro system has grown, - how it came into being physically, as an electric utility - not from the legislative point of view because that history is in Mr. Gathercole's section, but from the physical point of view. It grew, starting from the early part of the century, from isolated groups of early developments that were commenced in the province; I won't read this brief but I will just go through it



briefly - this Niagara area was the first intensive area to realize the potential value of electric power - then we had the Trent Valley and we had another area up in Georgian Bay, that is in Wasdell Falls in Western Ontario.

They were the beginnings of this system as we see it now. Over the period of these fifty years - we are celebrating the Commission's Fiftieth Anniversary of the legislation passed by the late Government, we have developed a capacity in this province, hydraulically, over four million kilowatts and we find ourselves today with an entirely different picture than any of us realized was going to face us when the war ended in Nineteen forty five. Now, about sixty years after the first large developments started at Niagara Falls, we are going to find the Ontario Hydro system going through a transition period which is indicated on the charts - one and two, of the brief. You will notice in Nineteen sixty or Nineteen sixty five, the way it pans out, the development of hydraulic plants becomes practically insignificant compared to the load growth and that the system becomes dependent on nuclear and other fuel sources for its energy. That transition which is occurring really started back in Nineteen fifty, when we put a plant at Toronto and one at Windsor, and continues





until Nineteen sixty at practically a stable amount of thermal power and then from Nineteen sixty on, the growth in the hydraulic end is very small, but the growth in thermal is a major new installation.

When we go to the thermal source for power, our fuel resources for the running of those plants are outside of the province. For the hydraulic plants our fuel is naturally rainfall from our rivers within our own boundaries, but when we go to the use of coal our source of supply is from across the United States at the present time. We have shown considerable interest in this province in the use of nuclear power and have followed it very closely, and you will notice in Nineteen sixty five that we indicate a portion of the thermal growth in nuclear power. We were attracted to that for two reasons - one is the fuel is within the province and, as you were told this afternoon, that it looks as if Ontario would contain some of the largest uranium deposits yet discovered.

If we have to go to the use of coal we have to go outside the province and it means the export of money to buy fuel-- now I have been asked by several people when is nuclear power going to put hydraulic power out of business. Well, I don't think ever. I don't think it is going to put coal out of business. I don't think it is going to put



oil or gas out of business. It is going to supplement them, not replace them. On that basis we forecast in Ontario that by Nineteen sixty five - if we have the same average load growth from Nineteen sixty as we had during the long term, which was six point fifty six, that in Nineteen sixty five we are going to need somewhere in the neighbourhood of eight million in kilowatts of energy for our systems. On the lower estimates which were based on carrying through a load growth of six point five from Nineteen fifty five to Nineteen seventy eight - which has been the average from Nineteen twenty two to Nineteen fifty five, we would end up in Nineteen sixty five again with a demand for somewhere around eight million - but somewhat less than the other. Now our feeling, Mr. Commissioner, is this, that we need in this province all the energy we can get from all sources, not only water, but coal, oil and gas, if we are going to maintain the growth that has been indicated from all the sources that I have been able to discuss. The growth in industry - the growth of population and so on. Now we arrived at these two charts, as I say, by taking what happened in the past - taking the long term average in Nineteen twenty two, as far back as we can get in our records - up to Nineteen hundred and fifty five. Now sometimes this long



term average is not going to work - I realize that, because it is dependent on population factors, on the increase of the use per capita and the increase in industry per man employed. These factors have been very difficult to pin down and while we have started a study in the last three years, on maintaining it, I couldn't get enough, basically, to check back on what would happen in here, on this chart - but I did do this - I went back and I took the population of the province from Nineteen twenty two to Nineteen fifty five and then I took the population predicted in the government's report as to the available kilowatts per capita - and you will see on this chart that in Nineteen twenty two, the province here had about one point seven kilowatts per capita, and by taking the average through to Nineteen fifty five, it indicated that the annual growth in use - or availability I will say, was four-point eight. So I said, well, let's extend that from Nineteen fifty five to Nineteen seventy five here in the chart, and see what happens and it ended up here slightly above the higher curve that it predicted on the extension of Nineteen fifty five to sixty of eight point one and sixty to seventy, of six point seventy eight. Now we have asked "Can we expect our domestic consumer - our commercial consumer and industry to keep on increasing the use, so that





the per capita would be two kilowatts?" In Nineteen fifty five it is less than one - it doubled itself there; I say that all we can go on is the past - and what we can see in the future. After the War in Nineteen forty five the per capita use in Ontario was twenty eight hundred kilowatt hours per annum. Well, the last check I was able to make this year indicated that it had risen to over forty two or forty four per capita. It had almost doubled. Now, where can we expect to see that material being absorbed ? We have made a study of some of the new items that are affecting our load and this has given us somewhat of a shock! One of these items is television. There have been over one million sets of television sold in this Province since Nineteen forty nine and the average set takes over two hundred watts - so that if that load were on all at one time -- it isn't of course -- but you could see one quarter of a million kilowatts for television. And we were discussing this and I was told "don't forget the babies - there were a hundred and forty thousand babies born in Ontario last year and we have to make the energy to use the electric heating bottles for feeding" -- feeding bottles take three hundred and forty five watts for a bottle, so if you figure out all the babies that are going to use them you have twenty or twenty five kilowatts for feeding bottles.



So here you go, and you keep on looking at it and all these other elements - and we felt we had to show something like this to look forward to.

We know that up to Nineteen hundred and sixty that our present programme is steady - we feel damn sure we are going to get that load! Last year at this time we weren't quite so sure and we sat back this summer, more or less feeling comfortable that everything was fine - the St. Lawrence was under way and it would be in on time -- in October we started to get concerned, until we got terribly concerned, and finally in December we decided we had to go to work and put in a two hundred thousand kilowatt unit for Toronto and another two, seventy five hundred thousand kilowatt units, in Niagara Falls. Last year we had four hundred thousand at Niagara Falls. We lost over one year's reserve on our load in Southern Ontario - peak load in December was four hundred and thirty six thousand kilowatts - I have checked with our neighbours in Michigan and Niagara Falls New York, and I notice that they are suffering from the same disease, so that it isn't a disease that is peculiar to this province - you Mr. Premier, made it general, though we find that is the situation, I think, with our prediction. We feel far safer in saying that we should look forward in Nineteen eighty





to something like this - that every five years we try to plan our load for five years; we feel that we have our capacity up to Nineteensixty fixed, but that beyond Nineteen sixty we will have to take a careful look at each year from there on - and may have to adjust the timing. We do know that we have to turn from hydro to thermal in that period and then get our feet - After Nineteen sixty - into the nuclear end of it. That Chart may not show you the correct relationship between the two, but what we did here is, we used the nuclear power for our base rate after Nineteen sixty five - as we feel that nuclear is the field in which it would be more economical to have our base load, and that is the reason that these quantities are shown on these charts for the base load requirements; that was the reason for making these predications. We can adjust those from time to time, of course.

We have also been asked the question about what plants are left to this province and I took this map and I plotted on it the stations that are under construction, or will be under construction in the next few years, and they are shown in red. If your commission would care to have a copy of these I will be glad to let you have all these charts but I didn't have time to get them printed, for today.



Then we took those plants which are now under construction, or will come in the next five years and there is one million, three hundred thousand kilowatts;--the orange colours here -- they are economical to develop and will come after, but you will see that most of them are in the north country - over here in the west. We felt that we should leave those for the development of the north and not try to direct them elsewhere, because they fit the northern pattern very much better - they are not too large, forty five thousand or so kilowatts; they are not the size that would make it worth while to absorb in the south where we want chunks of three hundred thousand and four hundred thousand - and that is beyond any one of those plants.

Now the light coloured - yellow ones - we feel that they are not economical to develop at this time because they are small plants of twenty three thousand, twenty seven thousand and so on, and the cost of construction and operating them put them in the uneconomical class. They add up to six hundred and sixty nine thousand. So, gentlemen, that is roughly the picture as we see it, of our situation in Ontario.

If we are going to turn from water to thermal, we are going to find ourselves in a



position where we will have to bring fuel from out of the province, which we don't like doing. If these gas fellows could give us some good, cheap gas down here, Mr. Chairman, we will be glad to try and use it. All the same, it is of such importance to our economy that we have this supply of electric energy - because if you switch on your light, and the light doesn't go on, you soon realize the importance of electric energy to our whole existence, not only in Ontario, but right throughout the world, today. It is one of the most important elements and fundamental elements and we must be sure that we are ready with a supply of this energy when our customers want it. Without our customers of course, there would be no demand, but the customers have been setting the pace, where we in the past used to have to get out and around and drum up business and try to create markets. Now it is just the opposite - we are trying to find power plants to satisfy the desire and the appetite of industry and of the domestic user, because they have found so many uses for it. So, as I say, we must look to this now; what does this mean in money? -- I haven't got that yet, but if the commission would care to have some figures we would rough them out; if that programme that is shown in that chart





were carried out it would mean that we would have to find over the twenty five years - Nineteen fifty five to Nineteen eighty - somewhere over three million dollars. The commission, which after the war had a capital structure of some four hundred million - today it is close to one and a half billion - so you can see what it will mean if we continue at this same pace down the years. I say it is going to continue - we are going to grow! Now, our present estimates for next year indicate that we will have to find somewhere in the neighbourhood of two hundred million dollars for capital construction costs and then that will go on at least for five years more and then it may increase further. There, gentlemen, is my picture of Ontario's needs as far as Hydro is concerned.

THE CHAIRMAN : Thank you Dr. Hearn; would you care to tell us your opinion about the possibilities at any time in the future of transporting power from as far as Hamilton Falls, Labrador, to Ontario ?

DR. HEARN : Well Mr. Chairman, we have made preliminary studies and we have men in Sweden where the Swedish Government are transmitting power over seven hundred miles, and physically it is possible. Electrically it is possible; it is a



question of economics. I would say that the electrical manufacture in the development of hydraulics has put himself in the position where you can go today and get the equipment necessary to do that. Now I am assuming that is on a trunk line with as much as half a million or a million volts - if it is down in the smaller figures - ten thousand, no - it isn't economical - but it is physically possible and technically possible.

THE CHAIRMAN: But it is out of line on costs ?

DR. HEARN : We don't know that - we don't know - first you will have to get the basic cost at the site -- we have made some rough figures that I don't mind mentioning to you here -- supposing, in rough figures, there was a thousand mile line of three hundred and eighty four - four hundred thousand volts - under ordinary conditions it looks like somewhere around a three million dollar business -- that is a pretty heavy burden. That is just a suggestion but it is something that would be possible, and that jibes up with what is being done in Sweden. I don't know whether Mr. Grauer has any better figures - because he put in a very high voltage line - whether he has extended it beyond to the point where you have got actual figures on it ---

MR. GRAUER : No--we haven't got





actual figures beyond the two hundred miles - I suppose there would be a political question,would there not, up in the Hamilton River ?

DR. HEARN : I wasn't asked that one.

I must ask the Prime Minister that - it could be!

THE CHAIRMAN : Well, as far as the period in which the Commission is interested -- the next twenty five years - I gather that you don't see any particular problems there, with this great period of expansion that lies ahead - no problems involved so far as your organization is concerned ?

DR. HEARN : No, our problem is the change over from the diminishing hydro to a passive thermal state and the problem is this - that you have got to get men trained in this nuclear work. We are sending men to England and co-operating, but that is a field in which there is an awful lot of work to be done in this country, to get engineers trained. We have got an excellent job with the physicists at Chalk River - they have done an excellent job as you are well acquainted -- but the engineer hasn't yet had a chance to grapple with this thing over here on account of the restrictions.

THE CHAIRMAN : You think that Ontario Hydro has to do some pioneering ?

DR. HEARN : Yes, but as I say, I don't



think we should forget that the more energy we can get into Ontario from within the boundaries of Canada, the better off we are going to be.

MR. GRAUER : On this chart showing the forecast of the higher estimate and the lower estimate, starting from about Nineteen sixty five, you have both nuclear power and the coal fired steam power -- will they be used for alternative purposes, or in alternative regions - or just how do they fit in ?

DR. HEARN : I may tell you sir, that at the present time, this system right here - and all up here and down there - is all pretty well tied in - this region (indicates map) where they are short of water supply they are on half kilowatt hours - and this area they have two hours --- we have an inter-connection here of over two hundred thousand kilowatts, so there is that system for one -- there is a gap here (indicates) - where that has not been joined as far as Geco - from that side, about a hundred and eighty miles between them - and then we will have an inter-connection from Manitoba across to Quebec, and New York State and Michigan State - we are now running parallel with Michigan State and New York State - with this whole system here -- three years ago Michigan supplied us with a deficiency of kilowatt hours that we ran into.



MR. GRAUER : Will coal power and nuclear power be operating throughout the system or will they be supplementing each other ?

DR. HEARN : No - they will be running parallel -- that is our point of departure, we will take the base load on nuclear and then, over peak load, on thermal - you see, hydro is taken as the base and we will build on that hydro base with thermal and nuclear power and then take our peaks with coal firing or oil firing or gas firing.

DR. GRAUER : Oh, I see. I think we would like it very much if we could have copies of these maps, and if your people could give us an estimate of the capital cost involved.

DR. HEARN : I will be glad to do that - but what happened was, we had a lot of the Staff preparing these figures, but then we got this shock on the load growth and we had to re-vamp our whole thinking because we had lost a whole year. I have just checked up on January of this year over last year, and that condition is still existing - the Nineteen fifty five peak over Nineteen fifty four, on the Northwestern Division was twenty one point five increase - Northeastern Division fourteen point eight and Southern Division thirteen point four,





an the whole system was fourteen point three.

Now the week ending January twenty second Nineteen fifty six -- the Northwestern Division was still running twenty one point five over Nineteen fifty five -- Nineteen fifty five went twenty one point five over Nineteen fifty four and in Nineteen fifty six, January - twenty one point five over Nineteen fifty five again. North-eastern Division was twelve point eight per cent increase against last year and in Nineteen fifty five over Nineteen fifty four in the Northeastern Division the percentage increase was fourteen point eight and in Southern Ontario the system is running ten point nine, for this year compared with Nineteen fifty five - so that there is no apparent let up.

THE CHAIRMAN : Thank you very much Dr. Hearn. We are most grateful to you. It seems you will be fully occupied over the next ten years!

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THE CHAIRMAN : I think we might take a short recess, after which we will hear from Mr. S. M. Blair, on behalf of Canadian Bechtal Limited.

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Recess  
After Recess

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THE CHAIRMAN - Shall we come to order Gentlemen. We are very grateful to you Mr. Blair for being pressed into service in this way and I am thinking of when we were in Alberta and we were asking questions on tar sands. Everybody said you will have to ask Mr. Blair so if you would tell us a little about the potential of tar sands we would be most grateful.

MR. BLAIR - Mr. Chairman I am very glad to come and tell you what I am able. This will be an odd type of statement though because I am talking of a resource which is still undeveloped although it has been under consideration for so many years. Part of the delay in development, however, has been due to reasons about which we are all very pleased. That is, the coming along of the Alberta oil fields and because of this very worthy work that has taken so much of our time, I think we have tended to draw away a little bit from the consideration of the great reserve in these sands. Five years ago government and industry made a comprehensive review of all the information that was available at that time on this subject. Following that the Alberta Government has passed the necessary legislation in an Act which brought about the necessary rules for the leasing of the sands, the proving up of the





leases and the legislation which will affect the deposit when it is ultimately developed. Since that time though, industry particularly has carried out a great deal of work on the deposits. Many hundreds of wells have been drilled and a great deal of basic research has been done on the oil and the mineral components of the oil, other than silica. A considerable amount of research has also been done on the refining of the oil. I think that the work up until the time of the review has all been recorded but it may be of interest to you if I attempted to simply draw some conclusions from what has happened in the interval of those past five years.

Drilling of the resources has shown that it is obvious that there is not a continuous large body of material, to some extent, as was originally assumed. There are large areas of rich sand but they are divided by numerous comparatively large bodies of lean sands and shales. The total resources though of sands that have been proven will result in the deposit being one of major oil resources - probably of the world - it is on a large scale. How large it is depends almost entirely on the form of recovery that is used. I would just like to take a few moments on the different forms of recovery. Research work that has been carried out by the



Federal Government, the Provincial Government and industry and recorded at the time of the review has all been substantiated pretty well by the later work but the economics of it are probably better understood now than then. Formation is found to be very bulky and, as I just mentioned, there is no vast homogeneous structure either of lean or rich sand but there are parts of it that are big enough in rich sand to produce enough oil to support even a large refinery over the period that refineries are usually written-off over.

The other large consideration that has been developed in Canada, particularly in the north, is that it has been shown that in operating costs the costs that arise from ancillary operations tend to become an abnormally big percentage of the total cost as compared to where the operation is carried on near a large centre of industry and there is in the development of this sand an immense amount of work that is actually done in the area. When these sands are developed I think a demand is practically a certainty but with the oil as it is now, it is incapable, as you know, of being moved in its natural state and something will have to be done so that it can be moved from there in an altered form; that is it will be a distillate, that is brought away and





that distillate will be transported by pipeline and the development will be directed to the minimum amount of ancillary operations in the area. There are two basic ways in which the operations should be carried out. One is underground mining methods, separation and refining. These plans were described a few years ago and have been reviewed since by a mining organization and I think we may take for granted that they are in the right order but, if they are to be corrected, they should be corrected particularly towards the incidental or the extra costs which come with such a development. The other project is to recover oil from the sand leaving it in place. The compensation for probable loss in recovery would be the obvious advantage of avoiding costly handling of ore and tailings. One form of secondary recovery that is being tried out on oil fields elsewhere - a certain amount of investigation has been done considering it as applying to these sands and it may be a possible solution for development of these sands. Now I think that maybe you would be most interested, just going from that, to what is required or is likely to be the state of conditions that will ultimately bring about the use of that material. In the first place I may say that with modern refining methods, probably any commercial oil could be made





from that material, but it is not an ideal charging stock for many of the Provinces and, when it is developed, its markets will be certainly for a restricted number of uses. The main use today is likely to go into the category of middle distillates. That covers a range of gas oils, deisel oils, stove oils -- that type of distillate which is made either to be used in that state or for maybe further refining to the lighter oils. Hence the likelihood of use for them is generally felt to be, if at any time there is a trend in the oil industry markets toward a bigger demand for a bigger proportion of those oils than ordinary crude tends to yield. Then the conditions will have been brought about which are the most attractive to the development of that material. When that condition is reached, of course, it is impossible to forecast at the present time, but the oil I feel should be considered as not something that is in conflict with normal crude oil production but is complementary to it. The likelihood is that it will be developed, when it is developed, by the same type of companies and they will use the same general type of refineries and pipelines and it will be brought on as a resource as and when those conditions are brought about that need particular amounts of the distillates which it can yield,



This work that is going on at the present time has been largely in the field of research and reserves that have been pretty well proven up by now. Present programmes are swinging more thought to investigations into the constitution of the material and are largely being carried out by industry.

I think that, Mr. Chairman, is a quick picture of the situation but I will be very happy to turn over these notes which will cover the situation if you wish them included in the Record.

THE CHAIRMAN - Thank you very much Mr. Blair. I will have your submission marked Exhibit 141. You have filled out a gap in our information on the subject which is extremely valuable to us and I think we are really most grateful to you.

MR. GRAUER - There are companies which are presently looking into the development of the oil sands and are doing so, not so much with the idea of immediate development, as with the idea of putting themselves in a position to go ahead at some future date. Would that be the situation?

MR. BLAIR - Yes - proving up reserves both for increasing reserves and also having a greater flexibility in case of change of markets. Possibly I should have stressed that one of the great merits of the resources is the proximity to





the surface. The great bulk of it is just about a hundred feet below the surface, hence it permits testing out by the underground or the secondary recovery methods in a way that ordinary oil does not allow, so that it is attractive as a research laboratory as well as attractive as a reserve in itself.

MR. GUSHUE - Could this conceivably go into a price competition with crude oil products - the oil sands?

MR. BLAIR - Only under special circumstances. If a market such as I described arose then it would be in competition but, not under normal circumstances.

MR. STEWART - You don't see any prospect of the kind of circumstances calling for a marked increase in the use of middle-distillates. You don't see that within say the next twenty-five or thirty years?

MR. BLAIR - Yes, I think we will, I feel we will have that condition within that time. With the increase in the use of deisel oils and the increase in the others, of those lighter oils, it is quite likely that there will be that condition, yes. That might be the cheapest source for that type of oil and also the refining method - again another aspect of it that is so complementary is the



refining methods which are making it possible to use this oil once it is recovered. Some of these methods are now, more particularly the new methods - are more applicable to this oil than at the time of the review a few years ago.

Notes of Mr. S. M. Blair included in the Record  
at the request of Mr. Blair

Some five years ago, a comprehensive review of the accumulated information on the Athabasca Oil Sands was carried out jointly by Government and Industry. Since that general review was completed a great deal of work has been expended on the study of that resource. The work has been particularly directed to an examination of the formation by drilling with which field work there has also been basic research on both the oil and mineral components of the formation. Studies are also in progress of the possible oil recovery and purification methods.

Since that time the general conditions affecting the leasing of the area, the development or research requirements pertaining thereto, and the basic conditions controlling the ultimate production have been established by the Alberta Government.

The field work has almost exclusively been done by private industry, while both Governments and private companies have participated in the other



investigations. Conclusions resulting from the recent investigations may be listed as follows:

The size of the formation from a technical point of view has been found to be very extensive. The size that is of economic significance is dependent on the recovery method applied. Even if applying conservative limitations, however, as to what represents recoverable area, it is proven that the total oil in the Athabasca field represents a major oil resource.

The early research work by the Federal and Alberta Governments and the Research Industry has, in general been confirmed by the more recent investigations, but the current work has also brought forth a great deal of new information.

It is now known that the formation is very irregular in composition. There does not appear to be any vast homogeneous structure either of lean or over-rich sands. The formation changes within a few miles from rich bituminous sands to lean uncommercial formations and such interludes of lean material may be found to be followed again by varying degrees of rich material.

This lack of uniformity has been shown by the comprehensive drilling to be more pronounced than is shown by natural outcrops.





Since the most attractive areas for any commercial developments are irregular, both as to shape and size, the economic feasibility of producing any one is dependent on the recovery methods applied. In many cases it will depend on whether or not a method is available for recovery of the oil from the sands "in situ".

While recognizing the presence of the lean or barren parts of the formation - it is also recognized that there are areas of highly saturated sands that contain sufficient oil to support a large plant for a normal operating life.

The oil throughout the formation is high in sulphur, has a high specific gravity and is very viscous. It corresponds to the low grade commercial crude oils.

With modern refining technique almost any commercial oil could be recovered from Athabasca oil. It is, however, an unsuitable starting crude for the manufacture of some products, in comparison with lighter crudes that could be selected for such specific purposes.

Thus, as and when the Athabasca oil is used commercially, its most economic utilization, because of its basic quality, will be for a limited number of markets.



In view of the high operating costs which have been experienced in other northern developments, it appears likely that the raw material will be removed by pipeline from the area to some industrial centre for refining, in as crude a state as feasible for transport.

The raw material made available for the ultimate refining operations will probably be a secondary product following a preliminary field treatment, either underground or in conjunction with the field separation plant.

If a mining method is used, then some eighty-five per cent to ninety per cent of the ore mined, excluding the overburden, will be discharged as plant waste. It is, therefore, essential in developing an economic process, to minimize the work done on that mass, either as mechanical, handling or as excessive losses, to the sand mass of heat or solvent. The establishing of any mining methods thus has the expense of haulage, disposal of tailings, etc., for very great tonnages. It is also to be noted, however, that if the recoverable portion can justify such an operation, the sheer scale of tonnage or volume that is required to be handled for the feeding of a large modern refinery, is well within the tonnages that have been handled elsewhere in the north





country and can probably be handled continuously through the winter as well as the summer months.

If a method of recovery should be developed for recovering the oil from the sand while in place, it would probably not be as efficient as to total recovery, but apart from the obvious advantages of avoiding the costly handling of ore and tailings, it would also have the advantages of being applicable over a much greater area (because of excessive overburden) than the open pit mining, and also the other very important feature that such an operation might permit a much greater percentage of the treating and refining operations to be performed in a less expensive operating area. The merit of applying secondary recovery methods to the Athabasca Oil Sands in contrast to the application of such methods elsewhere, will largely depend on the savings that can be made through the proximity of those sands to the surface and the consequent low cost of recovery wells together with the comparison of the value of the recovered oils that can be secured in both cases.

The condition which would probably stimulate the utilization of the Athabasca Oils most effectively would be a market requirement for a greater proportion of middle distillates to other oils, than can be produced from the regular types of crude oils.



ROYAL COMMISSION

ON

CANADA'S ECONOMIC PROSPECTS

HEARINGS

HELD AT

TORONTO, ONT.

JANUARY 27, 1956

REPORT OF THE COMMISSION  
VOLUME 26



Friday, January 27th, 1956

APPEARANCES - Mr. C. H. Millard,  
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Mr. S. C. Jackson,  
President,  
United Electrical Radio & Machine  
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Mr. W. F. McLean,  
President,  
Canada Packers Limited,  
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Mr. Donald G. Smith,  
Field Secretary,  
Credit Union National  
Association Inc.

Mr. C. W. McInnis,  
President,  
Ontario Hog Producers Association.

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THE CHAIRMAN - Will you come to order please.

The first submission this morning is from the United Steelworkers of America and as I have said on other occasions, but I want to repeat this morning, this Commission appreciates the help that we have been getting from organized labour right across the country and from the two parent organizations in Ottawa. It has helped the Commission to get everybody's viewpoint





on these complicated questions and we are extremely grateful.

As Dr. Lucy Morgan, who is the head of the Economic Branch of the Bank of Nova Scotia, is here this morning I would like to say how grateful we are to her and to the Bank of Nova Scotia for the very important study they are making for the Commission on the steel industry in Canada. As we have said before, this Commission would have been under very serious difficulties if a number of business institutions who have competent economic staff and the Trades and Labour Council and the Canadian Congress of Labour had not offered to conduct studies for the Commission, all of which will have their part in our report. Those studies are tailored to the specifications that the Commission suggested and are different in their concept to the briefs. They are being put in more or less as a supplement to them. In the briefs we naturally expect people to express their points of view and in that way we get some idea of everyone's point of view, but the studies in addition to the briefs, are going to be most important as a part of the work which we are doing and we are very grateful to Dr. Morgan for taking on something that she feared would be very onerous and it turns out that she is quite right.



You might I think just introduce your colleagues so that we will have them on the record Mr. Millard.

MR. MILLARD - I would like to introduce Mr. Goldberg, on my right, Mr. Kidd here of the Research part of our Association and on my left, Mr. Murray Cotterill, head of our Public Relations and Publicity for the Association.

I would like to start Mr. Chairman by underlining the first paragraph of our brief which has been submitted to you and say that, personally and on behalf of the organization, we appreciate a great deal this opportunity of presenting our views on one particular phase of a question which we deem very important in the future of the economic policy of Canada and we are using this entire brief as an illustration because we know the steel industry more intimately than we know other industries. In fact, we believe that is generally true of primary industry in Canada. All that I will do, subject to the Commission's wishes in the matter, is to simply make a few introductory remarks and then I will ask the Commission to hear a few additional remarks, a digest of the brief itself and then we will speak to the Commission's questions for as long as the Commission requires.





We contend that the higher and higher prices and the higher and higher profits, with the greater and greater trend for depreciation and investment which primary industry - primary producers - are now trying to justify and perpetrate and perpetuate in Canada, are detrimental to the Canadian people and the future of economic policy in our Country. As the Commission no doubt will see in the submission that we have made, it may be regarded as a challenge to those responsible for the false and deliberately misleading propaganda which aims at making labour the scape-goat for higher prices. I will mention it again but only a few moments ago a little press notice has been put into my hands which starts off "price increase for some steel products will likely be put into effect next morning when industry negotiates its new labour contract". Now it is always put in that frame. The fact of the matter is that we are just getting a little bit sick of always being in the "catch up if you can" group trying to follow prices and profits in the steel industry. We point out in our brief that only last year we told the Canadian steel industry that if they would hold the price line the Union, in return, would scale down its wage increase demands. However, that offer was refused, just as a previous offer to the industry



to hold a line on wages entirely if the steel companies would guarantee no price increase, at least in the period of the contract. We are in fact throughout this brief asking the Commission to ferret out the hidden price list and the disguised earnings and to make all the companies have the prices in such basic industries as iron and steel, available to the public and we are confident that if the Commission will do this, that labour will be found to be getting even less than its increased productivity record merits. We believe that the Commission will also find that the real reason for the major part of the high prices in our primary industries is a determination to charge all the traffic will bear. We also believe that if this inquiry is made into pricing policies, it will be found that primary producers actually discourage development of independent secondary industries and the production of quality low cost goods for Canadian consumers. Now I mean by that that the secondary industry that is attached to the primary industry - such companies as Steel Company of Canada and Dominion Steel and Coal and, to a lesser extent, to Algoma Steel Corporation - that their secondary industry does not suffer the penalties of these increasing prices but an independent secondary industry does and this spiral of prices and profits





that is going on works a hardship and discourages and is detrimental to the development of secondary industry.

We believe that there can be no sound plan to Canada's economic policy unless it is based on knowledge of the facts about prices and price policies rather than the propaganda that we have been listening to. We believe equally that it would be folly to depend upon preconceived notions inspired by propaganda and at this point I would like Mr. Kidd to give the Commission a few additional remarks and a short digest of the brief itself.

MR. KIDD - Well, our presentation will deal with subjects that no doubt differ from the usual in a number of senses but, in one important sense anyway, that is really we are throwing the ball to the Commission.

THE CHAIRMAN - You are going to make us work today.

MR. KIDD - We are presenting the Commission with a problem and you will see what that problem is as we go along. The problem really is understanding how prices in the steel industry are set and as we go along you will see how difficult it is for us to get any information on the matter and we think information must be available to the Canadian public so that they can understand their industry and so that





they can think in terms of what is best for the Nation's economy.

We rely on our experience a great deal throughout our submission. We fear that Canada is developing an idea that high prices and high profits are part of our economy and we notice that the prices for Canadian products in a great many lines are higher than the prices of similar prices in the United States. We also know that wages are substantially lower. We also are aware that investment in many lines of manufacturing in Canada is somewhat lower than similar investment in the United States but the return on investment in Canada is higher than those in the United States. I suppose that could account, in part, for the fact that Canada is such an attractive place for foreign capital these days. However, we think it is important to the general public that they have more information on steel production as the result of steel operations than they have now.

Now, you have had our submission, of course, for some time and Mr. Millard has given you an introduction to it. As he says, we have restricted our submission to one topic - the subject of prices. You will have other broader briefs from labour but we have used only one industry, the steel industry,



to examine the facts of price increases or price policies on the part of those basic industries and we have done so, of course, for a number of reasons. The most obvious one is that we are the steel union and therefore probably have more knowledge of the industry than we have of others. There are other reasons too. There is lack of public understanding on the whole subject which we think is rather important, particularly in view of the propaganda or newspaper editorials or what-not, that almost daily or weekly appear in this country on the subject and we think the public should have a little more information before them before they make up their minds on some of these things.

Then we want to examine the facts of what we would say are unrestricted or unregulated price increases in this basic industry. We want to examine the allegation that wage increases have caused price increases. We have got to point out to the Commission, and hope the Commission might be able to do something about it, the lack of data on the industry. We want to say what that means on a number of counts. We want to examine whether price increases have been justified on what we believe are the usually acceptable grounds and we want to see some of the extent and degree of price increases in the industry. Now





I don't want to labor any of these points but, our experience shows that the public actually has little or no knowledge on the matter and lack of public knowledge means notions are formed which may in fact be deleterious to the economy and we think the progress of the economy warrants more searching investigation into this matter. We think that following from that there is a possible adverse effect on living standards, not only for organized labour but for the whole consuming group. Price increases in primary commodities, when they are unregulated by any consideration of the public good, we say have adverse effects on the consumers. They have effects on secondary industries and they have effects on the whole economy and we know that our welfare is tied into the welfare of the general economy just as the welfare of most Canadians. We say that higher living standards are attainable when industrial capacities are continually expanded, when they are fully utilized in continual industrial expansions. Certainly, labour as a consumer has at least as much an interest, probably even more than most groups, in the prices that are paid for goods and commodities. We realize, of course, as you people do, that the basic prices have direct effects on prices for consumer goods which the consumer pays. Also we say



that unrestricted price increases in basic industries can have a bad effect on secondary industries because secondary industry can be squeezed by rising costs of materials and prices and what they can get for products that they manufacture. We think some companies could have served the situation better as operating with some control because the public does not have to buy the product of the secondary manufacturer but the secondary manufacturer must buy the product of the primary industry if he is going to stay in business so he is in a difficult spot, and because he often is in a difficult spot, then we as labour quite often find ourselves in a difficult position.

The second point is, of course, that new industries will be less likely to develop or to begin operations if they know beforehand that some of these costs are going to be too high and then the habit that the basic steel producers have of using wage increases as an excuse for price increases should be examined. This goes on to a wonderful degree. For example, that quotation that Mr. Millard gave you from the Financial Post of yesterday, the leading paragraph is that when wages are negotiated prices will go up. That is the excuse but the reason for the price increase is in the next paragraph. That is because demand is so high it cannot be met.



Now that is typical of what we face day after day and year after year in our area of operation.

The third point is the charge that wage increases cause price increases is often repeated and labour is held to be solely to blame for price increases taken by producers and, as we have said before, that is a favourite refrain in certain quarters and we feel the public should be made aware of the relationship between wages and other costs on the one hand, and prices on the other. In other words, by giving the public an insight into corporation pricing policies, the public would be in a better position to judge what is in their best interests. In our feeling, the public interest has not been given consideration by the primary producers and we believe that price increases that have been taken in the past few years are largely unjustified and we will have a little more on that point in a moment.

Then the fourth point is we have very few opportunities to point out the lack of data that would enable us to make a more realistic appraisal of the industry's position. For example, there is no information on prices. I can't say "no" categorically, there is some information if you dig around a little bit you can get information





from certain sources who don't want to be known. Now that is a peculiar situation in itself and quite different to what we see across the line in the United States where steel prices are published weekly. There is nothing hidden on steel prices in the United States. There is nothing given on steel prices in Canada and that is one item that we - and when I say we I think that applies to all Canadians - feel that these companies should be called upon to divulge sales figures. Only one company gives sales figures at the present moment and then on Dominion Bureau of Statistics material. That material in fact was emasculated in 1949. We think possibly the head of the department of Trade and Commerce could tell us, or could tell the Commission, but up to 1948 prices on steel were published, actual prices, but they were dropped in 1949 and they never reappeared, so one more avenue of finding out what steel prices were was closed off. And then we should have more complete production data. We think we should be able to make studies of productivity. Certainly any realistic study of productivity is beyond the scope of our research department with the material that is available. We don't think that is a good situation. Again, across the line all this information is readily available and also these companies -



and here we have support from two respectable daily newspapers - should be forced to prepare quarterly financial statements and they should be more detailed than they are or even than the annual one is now.

Then our fifth point is that steel increases, were steel increases justified on usually acceptable grounds, that is to say their profits too low in recent years or profits falling, or from the financial position of the company being harmed, or were labour costs increasing substantially or were other material costs increasing substantially? Those questions have to be answered, but of equal importance is the question "what about pricing policies". For example, when Stelco increased their prices apparently the others in the industry followed suit. Now you couldn't prove that by statements in the newspapers because there isn't any information.

THE CHAIRMAN - That is true of labour rates too is it not - wage rates rather?

MR. KIDD - Well, who doesn't publish them?

THE CHAIRMAN - All right, you win.

MR. KIDD - And it seems as though there is a pattern of price setting by a price leader in this industry. Apparently it doesn't always follow because Dominion Foundries just recently announced a price





increase for example, but the other companies didn't indicate that they were going to follow suit, but there is the announcement you see from Dominion Coal and Steel, so now we have Dominion Foundries and Dominion Steel already warning the public they are having a price increase, and by warning the public that there will be a price increase, on that point of price leadership, we say it is very interesting because when we discussed these matters with the steel producers, as Mr. Millard has told you, we were willing to regulate any increases we might ask for on the basis of regulation of price increases. It is a very peculiar situation where we are blamed for price increases, and the public is almost convinced of that because of the storys that come out, but when we try to discuss prices with these same people the answer is always the same -"it is none of your business." No information is available and no prices will be discussed. That is certainly revealing in itself.

The sixth point we believe is important in that it is high time that someone or some group, such as this Commission could reveal the extent and degree of price increases and we are quite sure that if such a group or such a body as this were to put steel prices in the spotlight, it would be a very



interesting matter for a great many Canadians to consider.

The other point is of course that as a steel union we have some information on the industry now and in our submission, because of the difficulties that are in the situation, we have tried to give you some idea as to how steel prices are set. There is a base price to which is added extra prices and, of course, a buyer pays freight and handling costs also, but on the extra prices where most of the increases apparently have been taken, percentage-wise that is, we have uncovered examples of price increases of over six hundred per cent on extras in the period under discussion and we are always stuck with 1940 to 1954 period for reasons of availability of information, but, on the extras as I say, we have shown price increases as much as six hundred per cent, running from a low of thirty-one per cent. Where price extras were high to start with, the increase was low, where price increases, or where extra prices were relatively low in the first place, then the increase has been much greater. We say that that is probably one of the most important aspects of the whole problem of what steel companies charge for their product.

We have mentioned to you the lack of



information including the lack of information from the Dominion Bureau of Statistics. The Dominion Bureau of Statistics does publish some material in its prices and price index. It is primarily the iron and steel industry division but as we have already said, the actual prices have been dropped. We have shown, therefore the price increases, taking the Dominion Bureau of Statistics material, looking first at the income per ton and you can develop from that at least what the percentage increases in income per ton have been which we imagine would bear a very close relationship to the actual price increase per ton on a percentage basis -- there we have shown that the average income per ton increase has been for all of these main products a little better than forty per cent and since 1954, this is. Of course there have been some substantial price increases in some items but this is what we have been able to find out.

The Dominion Bureau of Statistics figures show an average price increase of thirty-eight point one per cent and throughout our submission we rely on the thirty-eight point one per cent as being more conservative and therefore less liable to error.

Then we raise the point of the profits of the companies because you might assume that profits were suffering when a company takes price





increases of the size that were taken last year so we have done some examination of that and we have given you in Table IV a profit analysis of the five major primary steel producers for the same period, 1948 to 1954. We think that these figures are very revealing. They don't indicate that the steel companies were in any way suffering as they came into 1955, but even so, price increases were taken. There is one point on that Table IV at page 13. Atlas Steel was down considerably. Its return on net worth was nearly one point nine per cent in 1954 but we have three or four figures for Atlas Steel. The first three-quarters of 1955, their return is up around thirteen per cent again so that they have bounced back very quickly, so the general trend of the whole Table remains fairly accurate. And then we don't have too many comparisons that would be valid but we think there is always one valid comparison, that is the results of operations of similar companies in the United States and we have given detailed information there on return of net worth and we feel that this also is very revealing because, for the major section of the industry in the United States, the return on net worth was ten point forty-nine per cent in this six-year period or seven-year period while in Canada it was a little



better than eleven per cent. Now that includes all the large producers in the United States, the most profitable ones, but when you break down the results and use firms which are more directly comparable to ours, those firms have produced five hundred thousand and two million tons annually. Then you see even more discrepancy or spread between the returns on investment because in the eight companies in the United States which are certainly very closely comparable in their operations and in their size to these companies, their return was eight point sixty-eight per cent as compared to the eleven point nought eight per cent of the Canadian companies. So that on that ground we say coming into 1955 there certainly was no reason for the Canadian steel companies to take a price increase. And then in considering this matter you have to consider the utilization of capacities because, as we have said in our submission, we don't think that anyone would argue that your unit costs -- well let me put it this way, the fixed costs of producing steel -- are relatively high costs and the more they are utilized the lower the unit cost of production.

Now starting from that point and examining the situation in the past two or three years, we say that in 1953 these companies were producing at the





rate of approximately eighty-two point five per cent of capacity. In 1954 they dropped off, just the same as did the United States and they were down to an average of sixty-one point four but then last year it was up to approximately one hundred per cent. In other words, unit costs were declining, capacities were being utilized to their fullest extent possible and yet, in view of this factor also, the steel companies took a price increase and, of course as we have said, blamed it on the fact that labour had asked for a wage increase.

Total production in the steel industry in the first three-quarters of last year, as pointed out in Stelco's annual report, was up about forty per cent over a similar period the year before. So production was going up, capacities were utilized to their fullest extent, the profit position, shall we say, would be excellent, and yet price increases were taken.

There is another point here sir, to be considered, which is the rate of depreciation. I imagine that there are members of the commission who know a great deal more about this than we do but certainly the notion is, or the most recent formula has been, which is more liberal than the previous formula -- that depreciation rate is more liberal, I



should say, and the point here is the companies actually understate their profit position.

THE CHAIRMAN - Personally I would like to see industry encouraged to keep their plants even more up-to-date, to an even greater extent and in that direction they can go as far as they like but that is another point.

MR. KIDD - It may apply in some of these or in most of these plants I think.

THE CHAIRMAN - They are being brought up-to-date are they not?

MR. KIDD - Oh yes. We don't have data on profits for 1955 but certainly every financial page in the country has been predicting top profits for steel in 1955 and we have studied the profits in all these firms in the United States, we don't know about the companies here compared profit-wise with those of the United States for 1955, but it does seem a justifiable basis for reasoning, as we have pointed out.

Now on the question of labour costs. The steel companies always say and are saying it again, no later than yesterday apparently, that price increases are caused by pressure of wage increases, but first we should examine the allegation and we have to consider how much have wage increases actually



done so. Wage increases as a per cent of the sales dollar have some relation to profits and what is the relation of wages to prices. We note in our submission that the increase in average yearly earnings in the period under discussion was fifty-eight point four per cent but from the material we have about productivity and what we know about the industry, we say their productivity increase has been relatively high. Now, we find two years ago, productivity rate of increase in basic steel was approximately fifty-seven per cent. We feel that figure could probably pretty well be justified, but again we don't have actual information and cannot positively say that is so, but we do know that this increase has been considerable and no one in the industry will deny it.

In our Table IX we have given probably the best picture of what we are talking about here on the basis of value of product per man hour. We find in 1948 the value of product per man hour was four dollars fifty-nine cents rising to seven dollars and fifty-seven cents in 1954. We have shown a fifty-eight point four per cent increase over 1948 in average hourly earnings which compares with the increase in value of product per man hour of sixty-four point nine per cent. In other words, the value per man hour was increasing at a faster rate than





the wages and just one or two other summaries from that Table. Between 1948 and 1954 there was a decrease of twenty-one point four per cent in man hours worked. In other words, the amount of hours worked decreased over one-fifth and at the same time there was a sixty-four point nine per cent in value of product per man hour and between 1948 and 1952, we have given that because 1952 was the year with most man hours worked, there was an increase in the hours of seven point seven per cent but the increase in value of product between 1948 and 1952 was almost sixty-six per cent. Therefore, we think from that we have fairly well exploded the idea that wages are jumping out of proportion to other factors in industry and we think we have exploded the idea that wages are causing increases in prices because, as we say, the value of product per man hour is increasing faster than anything we have taken, and then the share of the sales dollar - another measuring rod - where we have shown that wages and salaries increased from twenty-seven point four per cent to twenty-eight point four per cent, that is an increase of three and a half per cent. In the United States in the same period the increase for the same item was six and a half per cent. In other words, in the United States the increase in this cost



factor has been faster than it has in Canada.

Now to just return -- incidentally we have given in our statement also on page 22, a statement from a professor in a Chicago university who has done some studies on this very point and his conclusion there certainly corresponds with ours, but to return to the point of whether labour receives too great a proportion of national income -- because that is really what is at the back of this, almost a national argument, and whether wage increases have forced themselves, shall we say, out of a reluctant employer and have actually instituted price increases-- we suggest that a little more inspection would soon show what the actual picture is. We would then go as far as to say that anyone who could do Grade VIII arithmetic could follow these facts because the Dominion Bureau of Statistics publication National Accounts Income Expenditure shows that labour as a per cent of the gross national product, has only increased from forty-six per cent in 1948 to forty-nine per cent. This figure, incidentally, is not in the brief, but forty-nine per cent in 1954. For the first three-quarters of 1955, the figure is also forty-nine per cent which is an increase of seven per cent. The factor of wages and salaries has gone up seven per cent since 1948.





MR. GRAUER - That covers all wages and salaries does it?

MR. KIDD - All wages and salaries yes which is taken from the Dominion Bureau of Statistics publication National Accounts Income and Expenditure annually and quarterly rates but there are one or two other factors in these tables which have some bearing on the situation. For example, while labour income was increased seven per cent in that period we note that investment income in some of our steel companies have recently championed dividends to investors. We note that investment income has increased twenty-five per cent in the same period. It jumped from fifteen point seven to nineteen point seven, four points, almost four times as much. Then the little matter of depreciation and other business costs which are allowable increased for the same period twenty-seven per cent. Instead of the eight point two per cent they took in 1948 they took ten point four per cent in 1954. That is an increase of twenty-seven per cent so I think these things should be considered at the same time with wages and salaries and an interesting sidelight on this whole thing is that labour, while it increased its income this seven per cent in the seven-year period referred to, it is relatively less better off than it



was twenty-five years ago, because twenty-five years ago the same factor took fifty-three per cent of the gross national product so here we have struggled up from forty-six to forty-nine in seven to eight years but are still in the position of not having reached the point we were at in the thirties when labour, salaries and wages took fifty-three per cent of the gross national product, so I think that should be thought of too when the general position is being considered that we are worse off than we were in 1931.

MR. GRAUER - Do you want to go back to 1931?

THE CHAIRMAN - Do you think that 1931 is a good year or a good measure?

MR. KIDD - No, not exactly. I don't know if it is a good measuring rod at all. I was only drawing that in as a matter of interest, I submit on this whole picture. I can't make any argument as to whether its good or bad at all. Far from it. I am just pointing out here what we would like to see on the basis of that information. In the rising degree of prosperity that we have now, there are other costs which I have touched on briefly, material costs we pointed out as a per cent of the sales dollar have actually been declining. They are starting



up a bit again, but they were declined almost twenty per cent in this period under discussion. As I say, they may be rising again a bit now and then risk capital - we touched on this point - because it has been reported to the press that the companies have said that they must have price increases in order to attract risk capital to pay for the expansion of the industry which they are now undertaking but, do these companies finance expansions by the issue of capital stock, or do they do it in some other way. We have shown in Table XVI on page 25 that while capital investment in this period under discussion more than doubled, revenue by financing only provided twenty per cent, or only increased twenty per cent, so the answer is that the increasing profits of the corporations pay for the capital expansions to the greatest degree and, therefore, the opinions voiced that higher prices are needed in order to attract risk capital by ~~maximization~~ of profits will not follow.

Then, in regard to pricing policy, if steel prices have been actually increased because of increasing wage costs or because of increasing other costs, and we think that we have shown the Commission that there is room for reasonable doubt that this is so, then why were prices increased? Why are they being increased? Which brings out the





other point - the maximization of profits and we say that this is without regard to public good. We are a little bit interested to see some learned gentlemen here coming to the Commission and saying that they are quite sure that business never sits down and figures out how to maximize profits from a monetary price position and other monetary positions, I personally believe that any time that industry sits down and figures out just what it is going to do for the public good in the line of prices, then the world will be made of green cheese and my friend Mr. Goldberg, who has been reading his economics more than I have recently, mentions that Adam Smith pointed out that whenever two or more businessmen get together, the subject of discussion is usually how to get more out of sales than they are making.

MR. GRAUER - Do you think self-interest is confined to businessmen?

MR. KIDD - Well I would think under the type of society that we have, it is probably more in their interest or their self-interest, than it is in other groups.

MR. GRAUER - There is a lot of probability in these statements.

MR. KIDD - Yes there probably is. At the same time I think it is a fairly reasonable assumption.



There would not be any trade unions if they were thinking in terms of self-interest. I think that goes without any other investigation - that is just understood - so possibly I am safe in saying that I would think that business as a group has more self-interest than heard in other groups in our economy. But there is another reason why companies have increased their prices and we say the most important factor of all and one that should have more investigation. That is that Canadian steel producers pretty consistently have held to the pattern set for them across the line in the United States, because as far as we can determine with the information at hand, Canadian steel prices pretty closely parallel United States' steel prices plus tariff, so that --

THE CHAIRMAN - Are you sure of that?

MR. KIDD - I am not sure of it.

THE CHAIRMAN - Because of the difficulty of determining or finding out what the prices are?

MR. KIDD - It is to the best of our information and we have given it very serious thought. We have done everything we can to uncover it. At the Tariff Board hearing that resumes in a week or so in Ottawa, we may find some useful information in that respect. We are hoping so anyway but that seems to be the situation.





Now I know that the steel companies can produce a list of basic products where the price is no higher than the United States price, or a little higher than the United States price or a little lower or something like that but, what you don't get is a price list of the actual products sold and the product sold is not usually wire rods, for example, it is usually some different variety of product made from wire rods. Those are the prices we don't have and those are the prices we think are the interesting prices but it certainly looks as though -- from what we know -- that there is a pattern of U.S. prices plus tariffs.

We can conclude now with a short resume of what we have said. We say on the basis of information that we have available, that price increases which have been taken, certainly in recent years, are unjustified and consequently that steel producers are the only beneficiaries of the present pricing policies which are followed. We say that the productivity savings have not been passed on either to the consumer through lower prices, or to labour through higher wages, and I should say that our wages are much lower, of course, than they are down in the United States. They are in the neighbourhood of forty to fifty cents, much lower, so we can hardly be used



as an excuse for price increases through wage increases when ours are so much lower than the United States and yet prices here are at least equal, if not higher than, those across the line and then in primary steel there is another point - another conclusion is that while both the cost of production and wages are lower in this country, steel prices and profits are both higher and we believe that this is not a very healthy situation. Then we say that secondary industries are at a disadvantage because of higher steel prices because those higher steel prices account for such a part of the price that might be obtained for their product and we say that this impedes the expansion of secondary industry. We also say that these monopoly pricing conditions that exist in Canada today are actually an economic millstone around our necks and because of this restriction of industry or of the development of industry, employment is less than it might be and prices are higher and so on all down the line.

Finally we conclude from all the information that we have that increases in labour and other costs are not the reasons for increases in steel prices and Mr. Millard has mentioned this morning that we have taken steel as an example for the reasons given, though there are other industries



we could mention to you and which are mentioned in our submission that will bear looking into also. That concludes my section of the presentation Gentlemen.

MR. MILLARD - I would just like to say two or three things Mr. Chairman and Members of the Commission. As I said when I was introducing the brief, we are continually blamed for price increases to which Mr. Kidd has referred. While these steel increases, particularly in Canada, are often predicted in the United States and already this year "Iron Age" and other financial papers in Canada such as the Financial Post, as we have already indicated, are predictating again very substantial increases in the price of steel this year when we have no wage or salary demands made at this stage, we might indulge in a little predicting ourselves before the Commission. We predict that before the Commission concludes its hearing that a spokesman for the big steel companies will be insisting that the inquiry into prices and pricing policies which we are urging here, is unnecessary and undesirable and not in the public interest. And I would like to end up with a plea almost to this Commission and to express our confidence that they will answer our plea in this matter and that the Commission will





thoroughly investigate and publish the facts of the steel prices and pricing policies and will recommend their annual and quarterly publication thereafter. The question has been raised by Mr. Kidd regarding the meagre information that was available to us through public sources but that even that has been suddenly cut off for no reason, which we can understand. That information has dried up. We would like not only that information to be re-instated but full and complete information on this very important question recommended by this Commission after their inquiry and, as I said when we started, if there is any more information the Commission would like we would be happy to be at your disposal to the best of our ability.

THE CHAIRMAN - Thank you Mr. Millard and Mr. Kidd. We will mark your submission number 142. Mr. Kidd has said that Mr. Goldberg had been reading up on his economics and he quoted Adam Smith. Now Adam Smith has been quoted to this Commission on several occasions and I would like to conclude that Mr. Goldberg has included in his reading some economists who are more recent than those who lived in the 18th Century. As a matter of fact, that is not fair to Mr. Goldberg because I know that he was following what Dr. Galbraith had to say the other



day very closely. In fact he asked me this morning if he could get a copy of his remarks. You have stressed to the Commission this morning and in your brief the greatest emphasis on this question of prices and you have said this morning that it is very important that the way in which they are determined should be studied. I do not think that this Commission at this hearing can probably contribute very much to that study. As I have said earlier today Dr. Morgan is undertaking for the Commission a study of primary steel industry in Canada and undoubtedly she will include in her study something on prices, at least I assume so and if you can help her in any way I am sure she would welcome your thoughts and ideas. I was hoping that you could give us some information a little more precisely on the question of productivity Mr. Kidd although you have mentioned - as in a number of other points you have touched on - that it is very difficult to document your conclusions because of lack of information but do you say that you have reason to think productivity in the steel industry in Canada is increasing at the rate of seven per cent per annum?

MR. KIDD - Well two years ago, or a little less than two years ago, we did make some examination of productivity for a conciliation board and that was





approximately our conclusion at that time. That is about all we have.

MR. MILLARD - From the information we have, which we have indicated in the brief itself, we find that labor costs per unit of production in basic steel, has decreased in recent years. We point that out and Mr. Kidd has referred to it in his remarks.

MR. GRAUER - In Table IX you refer to - dealing again with productivity - certain percentages and I am not sure that the Table proves what you think it does. The value of product per man hour is shown to increase by a certain percentage and then earnings as a percentage of value per product per man hour. I don't know how you take the cost structure into account there. Typically the way that you get a big increase in productivity is by investing much more capital in up-to-date equipment and that sort of thing, using the workers which usually mean that, on the average, they are more skilled with that type of process and you do automatically, and inevitably, get this -- and this is the real test -- high increase of productivity per man hour, but you achieve that by spending a lot of money on plant and equipment which affects the cost-side and increases your carrying charges on your investment and that sort of thing, also depreciation and so forth, so I don't know



if that Table does prove what you have in mind.

MR. KIDD - We didn't say in our submission that this proved productivity increases. We said that this was the only thing we had that had any bearing on the subject and certainly we understand what you have just said as having a bearing on the situation but it is not just possible for us to develop the state of productivity along the lines you are suggesting because we just don't have the data.

MR. GOLDBERG - The definition I think of what you are asking is for the physical productivity. We don't have information with which to measure physical productivity. All we can measure is the value of productivity which, of course, can increase with no extra physical productivity. That is the increase per capita value of productivity from the information we have.

MR. GRAUER - Well I was just wondering as to what it amounts to.

MR. MILLARD - In connection with one point you raised Sir I think we have time to show that in carrying costs which you referred to, investment capital, improved equipment and so on, and other things making increased productivity possible, that the biggest proportion of this is coming out of



earnings.

MR. GRAUER - Well then, of course, that situation has to be studied too. Retained earnings might be at the expense of current dividends to your shareholders and would be quite legitimate from that point of view.

MR. MILLARD - I don't know of one case where there has been any expense of dividends to the shareholders. They are doing pretty good on paying dividends.

MR. GRAUER - Of course there are two points of view on these things. In your comparisons with the United States does your Union believe that the wage rates and working conditions here should be the same approximately as those in the United States?

MR. KIDD - Well that again is a matter for a great deal of thought and study. We have proposed that wages be levelled off and we used similar reasoning to what we have given you here. We have taken firms whose products are similar, whose method of production is similar, whose value of products is similar and the number of employees also is similar. In fact, one firm compares to another and we have found out that in the United States every one of those firms regardless of the profit it makes, pays the same rate as United States Steel does. All





rates in primary steel in the States are set under this cooperative wage setting programme. When you compare the results of operations in Canada, consider prices and all its other factors, then you see there is no reason why we couldn't level off wages in primary steels here as they have been doing in the United States.

MR. GRAUER - In other words you think they should be the same.

MR. KIDD - That's right.

MR. GRAUER - I rather gather you think more of the situation in the United States than you do here generally. I take it that the Steelworkers Union is happier in the United States than it is here. Is that a fair deduction?

THE CHAIRMAN - They are happy in both countries.

MR. KIDD - In what regard?

MR. GRAUER - Well your figures are in favour of the United States in every comparison that you make. Are American steel companies asking for price increases?

MR. KIDD - Yes they have increased them as Mr. Millard said in the Iron Age Magazine.

MR. MILLARD - Iron Age consistently speaks for them and has predicted that 1956 will see



substantial price increases although no wage demands have yet been made.

MR. GRAUER - So in that respect both sides are probably the same. Do you know any reason why? Do they give any reasons?

MR. KIDD - The same reasons as here. They say that the unions are likely to ask for wage increases therefore we are going to have price increases and secondly they are going into expansion and therefore they are going to need higher prices to pay for the expansion. Those are the two recurring reasons.

MR. GRAUER - We do hear that second reason in some other industries too. The argument being that because of expanded plants the cost of building a new plant is considerably higher now than the average cost of an existing plant and that is the reason given in the United States apparently.

MR. MILLARD - We don't feel that labour should pay the cost of that, should continually be required to pay for this expansion programme.

MR. GRAUER - I was a bit puzzled by your submission to tell you the truth. I am not quite clear - have you decided on the basis of the evidence that you have that the allegations you make are correct or are you asking us to look into them to





see if they are.

MR. MILLIARD - We are asking the Commission to verify our suspicions based on the limited information available to us and to eliminate those defects in the future by having these things made public property.

MR. KIDD - We said we were going to pass the ball to the Commission and we think that an examination of these statements would correct any false impressions that either we, or industry, or the public at large have, which would be very helpful.

MR. STEWART - I hesitate to enter into a subject which I admit I know nothing about - the steel industry - but in this stage of the discussion it seems to me that the crux of the problem that we are concerned with here is the behaviour of prices in regard to expanding demand and under those conditions it seems to me that an increase in price in a market for a particular commodity is to be expected in a competitive situation, and even in a monopoly situation which would have certain social functions to perform. The point I think came out in the reading of this quotation from Financial Post that while certain reasons were attributed in the headline, in the second paragraph it came out that the purpose of the price increase was to shut off



demand. In other words, it rationed scarce supplies at that time, so that in a period of expanding demand we don't have to object to a rise in prices necessarily.

MR. KIDD - The reason that you mention might be contrary to public welfare. It might be a saw-off of the demand, but what is needed maybe is more capacity to production.

MR. STEWART - Yes, but today we haven't got that. We just haven't got steel today, it is a question of time, but I am wondering whether you agree with me. I don't think you wanted to take the position that in a period of expanding demand there was no case for some price increase. I suppose your argument is really amount and timing.

MR. GOLDBERG - But the interesting point is that the companies never use that reasoning to justify an increased price. They never state the demand is great or the supply is short, therefore we can get more rise in price, they never use that explanation. They use the other excuses for rising prices of steel. We feel that this is very interesting. We feel that if the public was made aware of the real reason for rising prices whether it be to meet increased demand or whatever it is the public attention should be focused on this and something might be done about the situation to the public interest - perhaps in some way



by stimulating an increase in production capacity of the steel industry to meet the increased demand or perhaps another way.

MR. GUSHUE - When you suggest that pricing policies must be examined and of course you speak of the industry with which you are most vitally concerned, you don't suggest that it should be limited to this industry, do you? You think that should be general?

MR. MILLARD - No, particularly primary industry.

MR. GUSHUE - Primary industry?

MR. MILLARD - We might even go for pulp and paper, newsprint.

MR. GUSHUE - The main task of this Commission is to look twenty-five or twenty years ahead and your suggestion with respect to the future is mainly this one about the publication of quarterly statements I take it?

MR. KIDD - No we have gone into broader fields than that. That is one item but we gave you half a dozen types of information that should be published and that are necessary.

MR. GUSHUE - Yes but that is the suggestion.

MR. KIDD - That is one - you only mentioned one.

MR. GUSHUE - Published quarterly statements?





MR. KIDD - Well that is financial reports but then there is the matter of pricing. There is a matter of sales figures - there is a matter of production, actual production - capital invested - matters of that sort so that we and other Canadians may take a look at this history every year and we can probably do something on productivity; see what productivity has been and whether things have been to the benefit of or contrary to public interest. No we are much broader than just that one thing.

MR. GUSHUE - But that was your suggestion as to the future.

MR. COTTERILL - May I just say in this connection that collective bargaining in the steel industry and many other primary industries is a comparatively new factor in the Canadian economy and that is the extent to which collective bargaining exists now in major industries, but if collective bargaining is carried on in an intelligent fashion, the employer, quite apart from the customers of these industries, but the customers as well, should know the facts of the situation and you cannot conduct collective bargaining on an industrial scale -- or a secondary-primary industry relationship should not be carried on in furtive secrecy. All we suggest is that the facts should be made known so that people



could plan their actions on facts rather than upon rumours or suggestions. How does the Union know whether it is asking an amount which might be harmful to the Canadian economy if there are no facts available? How do we know the employer's position in refusing certain things might not be even more harmful to the Canadian economy if the facts are not available and our primary objection is that the facts should be out and we think that your Commission Sir would be able to make a more accurate prediction on Canada's future upon those same facts.

MR. GUSHUE - The facts don't come out in your collective bargaining?

MR. MILLARD - They are denied us.

MR. COTTERILL - They are denied to the Unions.

MR. MILLARD - Then on the question of trying to get some kind of interim retirement plan or pension plan, many of the companies absolutely refuse to give us the physical facts regarding personnel which they had immediately at their disposal.

THE CHAIRMAN - We are very grateful to you Gentlemen. I will not say that this Commission will, or should, go into all the points that have been raised, not just by you but by many others, because I suspect we would have to spend twenty-five years on





the job.

MR. GOLDBERG - Well then you could predict with certainty what the future of the next twenty-five years will be.

THE CHAIRMAN - I think Mr. Goldberg has made a very important contribution to this discussion. Thank you very much.

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THE CHAIRMAN - The next submission will be number 143 which is from the United Electrical, Radio and Machine Workers of America, so Mr. Jackson if you will present it we will get underway.

MR. JACKSON - Gentlemen; Well following the procedure of the board we have presented our brief in writing and I am certain the board has read the brief, therefore, we don't feel it is necessary to completely go over the brief now.

THE CHAIRMAN - No. I would like to thank you for letting us have it early because it gave us a chance to read it and that is quite a help to us.

MR. JACKSON - Yes. We thought in that case we would just briefly summarize some of the main points that we have brought forward in our brief and in the first place, we certainly welcome the establishment of a Commission particularly in light of the fact that over a number of years our Union has had occasion to express quite some concern about the future



of industry and about the future of the United Electrical Radio and Machine Workers and our membership have on many occasions in the past made representations, mainly to the Federal Government considering that that was the source for various types of legislative action and for the creation of a climate, the necessary climate for the development of this important secondary industry and until as recently as a year ago, we have been facing some serious problems in the industry - a sharp decline in employment for instance. We did at that time make representations to Ottawa to try to secure the establishment of an investigating committee that would inquire into the growing problems of this industry in Canada and now with the answer that the Royal Commission was being established to look into the problems of the future of economic policies of our country, we certainly feel that this provides an excellent opportunity to bring forward some of the problems in our industry as they fit into the perspective of the coming years. We are, I believe, in concert with some of the main sections of the industry itself. The industry has, on occasion, undertaken surveys, the more recent is known as the Knox Report, an investigation into one aspect, primarily of the problems of the industry, namely the problem of importation. Our concern for the future in the industry, basing itself on the problems of the working people of the industry,





is first with the great increase in productivity that has taken place within this industry. In our brief we have detailed that somewhat although not as extensively as we have touched on it in other documents that we have presented from time to time to Ottawa. Documents which we have developed in terms of our own studies within the Union. We find that we are well aware of the problems of accurate measurements of productivity, we find that unions accept the Knox basis of measurement of productivity and the indices differ in the course of studies made by them when carried over into the present operation beyond the date of the Knox study itself; that there has been an increase of better than one hundred per cent in productivity in this industry over the period since 1946 and that the rate of increase in productivity seems to be accelerated, now reaching well above ten per cent per annum in the period of the last three to four years. Our projection would indicate, and it is only a projection, that for the period from 1955, productivity in that year alone for the industry would approximate twelve to twelve and one-half per cent increase over the previous year. This has resulted in the decline in the total employment of wage earners in the industry at a time that the total dollar of sales in the industry is, and has, continued to rise. The total dollars of sales of the industry in 1955 was slightly below one billion





dollar mark establishing a new high, yet the wage earner employment in the industry in Nineteen fifty five was below the peak period of Nineteen fifty three. We consider that the development of the increase in productivity in this industry and the effect it is having in terms of employment within the industry, constitutes an important problem, not only for the working people in this industry, in terms of displacement of a certain percentage of the working force -- a permanent displacement in one respect -- and that this requires remedial action -- which, from our point of view, can best be carried out or achieved through a reduction in the working week with maintenance, or rather an increase of take-home pay. In raising this question we raise it, not only in terms of the future of the industry, but we raise it sincerely, as a necessary concomitant in the development of the economy of Canada as a whole, and we point out that this increase in productivity that has taken place since Nineteen forty six, has been taking place also in a period of rapid and considerable reduction of the normal work hours in the industry from forty eight to forty hours, in that period of time.

There are other factors that concern us and possibly, one of the major factors concerning us is the extent of foreign and United States control within this industry. We are concerned about it from



several points of view. We are concerned about it in the first instance as Canadians in terms of sovereign rights of the people of this country. We are concerned about it in terms of its effect on the development of the industry itself from the standpoint that, outside control, operating largely in the interests of the owners of the industry, are not going to be too concerned about, or too alert to, the problems of Canada as a nation but rather are going to be devoted to the fact that it is an investment on which they seek a return in relation to the investment that they have in their own parent company and we know, without examples, of circumstances where there is softness in the economy to the South where American corporations having branches and subsidiaries in Canada during certain aspects of the industry, find them expendable during these periods in order to continue to provide or continue to have a market for the flow of goods from their parent plants. There are a growing number of instances and as I say particularly, when you have periods of softness in the economic situation to the south, where complete processes, formerly which were carried on in Canadian sections of these plants in order to supply the Canadian market, would come completely from the American plant. Now the effect of that





control is difficult to measure as there is an inadequacy of statistical information in terms of what is actually the degree of foreign control or United States control in the electrical apparatus supply industry. The Government statistics that are available are suffering from certain weaknesses. In particular, in some instances the weaknesses flow from the measure or criterion for establishing that control. In some instances these are established on the basis of a fifty per cent stock ownership but this does not necessarily limit the degrees or the ways in which control can be established. Therefore, as I have said the Government statistics based on that criterion do not present a proper reflection of the extent of control that exists in this industry and in other industries. Our industry is not unique in this respect in the manufacturing field and we certainly believe, in fact we would assume, that one of the fields of study this Commission would be interested in is the extent to which there is foreign control in this or in any other industry and the extent to which that control is deleterious to the development or the possible development of the economy of this country.

Outside control is also reflected in the extent of importation from the United States and I



think there is a general awareness in this country today of the problems and the threats to Canada due to the extensive reliance and dependence on the United States in terms of both a market for our goods and a source of supply for goods that come flowing into the markets of Canada to meet Canadian demands. We are quite concerned about the reliance, the degree of reliance on the American market, feeling that with all of our goods in one basic aspect we place the economy of this country too directly under the influence of the developments in one other single country, and in our brief we have reference to the various means whereby, in our opinion, that degree of dependence can be lessened to the advantage of Canada, particularly to the switching of our trade, both in terms of exports to other countries, re-establishing in a measure the trade patterns existing pre-war between Canada and the Commonwealth, and the opening up and taking advantage of the new opportunities that are available today for trade in the Far East with China, with the U.S.S.R. and other such countries, with the opportunities that are available to help to develop under-developed countries, India, and so on. In South Africa we believe there is a great field. We believe that a change of trade patterns would be extremely beneficial to Canada and





would encourage and accelerate the growth of the national economy.

We find great concern - in fact we have expressed our disagreement with what appears to be a major orientation of the policy on the part of the Federal Government of the reliance on the export of raw material, semi-finished goods and the dependence and reliance on outside markets for the production of, or at least outside producers, for the supply of finished goods which flow to the consumer in this country.

At the time of the proposals, which I believe were the Abbott proposals in 1947, there was indicated a new orientation in trade policy and it has had, in our opinion, the effect of slowing down industrialization in Canada, particularly in the development of secondary industries. Our industry in particular is today in a very substantial way, dependent on American industry for the importation of a substantial degree, or all the parts that go into the manufacture of the finished product in this country. We believe that there is a great potential and a great need of encouragement and a climate should be provided to develop the secondary industries in Canada. We have been pleased to note, and I think largely as a result of the activities of





this Commission, a considerable number of statements that are now being made publicly on the question of the need of development of secondary industries in this country. We are pleased to place our support behind that position. First, because in terms of employment potential in secondary industries it could provide the employment that primary industries are not able to provide. A casual check of the statistics in that regard would seem to indicate that secondary industries provide for each dollar of value added in manufacturing a job for two people in the secondary industries for one with the same dollar value, of value added, in primary industries in the raw material and extraction industries. Therefore we are strong supporters of the need for development of secondary industries in this country.

In making a presentation from a union and speaking on behalf of the working people, our point of departure is first that the working people constitute the bulk of the basic consumer market and the workers, the working and farming people together with their families, therefore are a critical factor in the health of the economy and the health of the nation and we start our examinations at all times from that point of view, that is, the well-being of that section of the population.



Starting there we have occasion to be quite concerned about the future of this Country unless there is a much greater concern expressed through legislative and other forms for the well-being of most of the people of this country. The Union performs a particular function in assisting in raising the living standards of the working people per se. In the course of doing so we also assist in bringing about a better and wider distribution of the fruits of production and, therefore, it would seem valid that a government's interest in developing the basic interests of those people would have to address itself to that subject and to provide the means whereby the function of the union could have a very important economic regard, and would find at least no obstacles from government sources. The extent to which encouragement is likely to flow is a matter of speculation under these conditions, but however we believe that government holds in its hands many of the means whereby a greatly increased general purchasing power level, or consumer purchasing power level in this country, could be effected.

We have in our brief dealt sketchily with some of those opportunities available to government through an increase in the various social services and, of course, we are aware of the inevitable question





that is always asked "where does the money come from?" In our opinion the money will come from the more rapid expansion and a greater pace of industrialization of the nation itself and the more equitable distribution of the fruits of that increasing production and productivity that is showing in industry today. We believe also that the new international climate -- or international if one doesn't want to call it new -- the international climate today is conducive to changing trade patterns establishing a greater independence of orientation by Canada's government, less dependence on outside countries and the policies of other countries and a striking out in the trade fields, in the process of which we will consolidate the peaceful potentials in the world and by so doing, relieve the Canadian people of the tremendous tax burden which is now being levied on them at the present time under the heading of defence.

We think there are unlimited sources for the meeting of the cost of increased social security with benefits to the government in the form of additional revenue that will flow from those expenditures. The concern, therefore, of our Union in presenting our views to this Commission is, or rather our hope is, that by directing our emphasis to the first discussion, outside control of the industry and the



effect of that control on the industry in holding it back and in stressing the role of consumer purchasing power and the role of the working people and the unions in helping to increase that purchasing power, in this way we will be doing the best service to the members that we represent. I think while I have not touched on all the phases of our report I have at least mentioned some of the highlights that may serve to point up the discussion and the purpose of our brief, but if it is in the mind of the Commission to inquire any further into any of the positions we have taken I will be very pleased to answer their questions.

THE CHAIRMAN - Thank you very much Mr. Jackson. There is one question I would like to ask, or one in particular. We have heard varying views across the country about the extent of foreign investment in this country. Some people seem to be more concerned about it than others. No doubt it has a lot to do with stimulating the rate of development in this country since the war and we have benefited because of that - we have all benefited from it very greatly. It has been suggested to us that if there is anything we should be concerned about in Canada with regard to future investment of capital from abroad into this country, we should at the same time consider the implications of





international labour unions. Now I can think of no one better to ask for an opinion on that subject than yourself.

MR. JACKSON - Well I have noticed there were questions and controversies. Frankly, I think they are totally unrelated. The trade union movement in Canada is anomalous in that sense but I don't think there is a parallel situation anywhere in the world where the members or the workers in one country are members of a union having its offices in another country. It is quite unique. It flows from the same past history of development in this country. The direction in which the Canadian labour movement must move is towards a completely autonomous and independent central labour organization. I am not prepared to say that, at the same time, it is necessarily a strong current within the labour movement. As far as we in our own Union are concerned, we have been proponents ever since we came into existence in 1937 in Canada, we have been proponents of independent Canadian trade union movements. We find some contradictions but we do find it is aggravating in the sense that one likes to be master in one's own home.

THE CHAIRMAN - It is aggravating but not serious.





MR. JACKSON - Well it's not serious, it is serious in the sense that it depends on how seriously one takes one's national feelings and national aspirations.

THE CHAIRMAN - Well then in discussing these branch plants and so on, where you say that in some cases the parent concern may feel that the Canadian branch plant was expendable, would you think that that would ever apply in the case of international labour unions?

MR. JACKSON - I don't think the same factors bear on the one aspect as the other, however, it is a matter of broad interest of a large and composite section of the citizens of the country but they operate on a different basis and with different fundamental principles.

MR. STEWART - Would you care to comment on the position of your Union with respect to immigration prospects.

MR. JACKSON - On the question of immigration we certainly recognize that the population of this country is totally inadequate in size in terms of the great potential of resources. We are indeed very strong supporters of the need for large-scale immigration. We are, however, faced with problems of timing and scope of immigration in terms of the



level of the economy at a given time and I think one is never able to be too dogmatic on that question as to what is the right timing or the right flow. I have no fixed comments on that. I have never been able to satisfy myself that anyone has come up with a formula that one could say "that it is, that would solve our problem". Certainly we are in favour of a substantial growth of the population of this country by immigration over a period of time.

MR. GUSHUE - You have referred in your brief to the necessity of adding strength to Canadian industry by enlarging markets and you have used the word "recovering". You are thinking there of markets particularly in the British Commonwealth?

MR. JACKSON - Yes Sir and some South American trade.

MR. GUSHUE - Markets which have been lost - I don't know to what extent they reach but which have been lost because of the currency situation?

MR. JACKSON - In some measure because of the currency situation, which again, in our opinion, flows from the wilful dependence of the Canadian Government on policies enunciated and formulated in the United States of America and the wilful dependence on American markets both as a source of demand for our raw materials and a source of





supply for our imports. Once we have tied ourselves in with the American economy in that way then we are more or less wedded to the dollar economy which then in turn freezes out certain other sections of the world - countries that have no dollars to trade with and I believe that policy has worked to the detriment of Canada and unless it is changed it will bring about a further deterioration of the development of the Canadian economy.

We further support and associate ourselves with the activities of Mr. James S. Duncan, in trying to expand trade between Canada and the United Kingdom and the Commonwealth, particularly the United Kingdom. We feel that we can switch some of our imports to Great Britain away from the United States which would lessen our dependence there. We would also be creating a market for Canadian goods in the United Kingdom.

MR. GUSHUE - Have you any comments about the relative efficiency or ability to compete of the Canadian industry on the main markets and so on?

MR. JACKSON - Well that is an unknown quantity. I would say that the whole question depends on more factors than just cost. In our opinion it is not strictly the cost factor but selling and if the energy is put into it and there



is a will to get out and find out about and explore these markets, I certainly think that the Canadians would be able to compete.

THE CHAIRMAN - Thank you very much Mr. Jackson.  
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THE CHAIRMAN - Mr. McLean, the President of Canada Packers will now present his company's submission, which I will mark as Exhibit 144.

MR. McLEAN - I may say gentlemen at the start that I have purposely made this rather short. If there are any subjects which I have left out entirely which you are interested in in connection with our industry I will of course be glad to try and answer any questions.

THE CHAIRMAN - Thank you Mr. McLean.

MR. McLEAN - The packing house industry is a service industry. Its function is converting livestock which is produced on Canadian farms into dressed meats and delivering these meats to food retailers. Because plant and distribution facilities are adaptable to other similar food products, some packers engage in other food businesses. The principal of these are poultry, eggs, butter and cheese, edible oil products and soap. For our supply of livestock we are dependent upon the decisions of approximately half a million Canadian farmers who individually plan their livestock programs. Each packer competes in the open market for livestock, which is his principal raw material. Of our sales dollars, costs of livestock and other raw





materials are approximately seventy-eight per cent.

Wages and salaries account for approximately ten per cent. The balance, ten per cent, that of course should be twelve per cent, that balance, is spent on packages, selling, operating expenses, overhead and profit. This service operation is performed on a narrow margin of profit. In our firm, it is approximately one per cent of the sales dollar. First, let us examine the prospects of livestock supply for Canadian domestic requirements and for export in the years ahead. There is no foreseeable difficulty in producing sufficient cattle for domestic requirements of beef for many years to come. For a human population of twenty-five million, the cattle population would have to be approximately eighteen million at the present rate of consumption of beef per capita. This number of cattle, indeed considerably greater numbers, does not seem to present any problem. There is plenty of pasture land available in Canada and there will certainly be no difficulty in producing sufficient feed grains. A significant change is taking place in the type of cattle required to suit the Canadian trade. In the past few years the demand for light weight carcasses of high quality (that is red and blue brand) has increased greatly. We believe that this trend will continue. To ensure the supply of this type of carcass, a much larger percentage of the cattle will have to be grain fed rather than pasture fed. This, however, does not change the conclusion that the





production of sufficient cattle to satisfy the demand in the future will be readily accomplished.

There is no doubt that Canada can produce more than sufficient hogs for domestic requirements for a long time to come. During the past three years, domestic consumption has averaged four million seven hundred and seventy-two thousand hogs per year. In 1944, slaughterings of hogs in Canada were eight million, eight hundred and sixty-five thousand. The 1944 figure includes, of course, the large guaranteed export market in the United Kingdom, during the war of course, but it demonstrates Canada's ability to produce this large number, and this number did not strain our production capabilities.

In the past few years there has been an enormous increase in the production of poultry in Canada, due principally to the development of very economical large-scale methods of growing poultry and to the great improvement in breeding flocks. A few years ago Canadian poultry came mainly from small country flocks. This has been changing rapidly to large-scale operations, with specialists on poultry maintaining flocks of many thousands of birds. There has been a very dramatic improvement in the methods of poultry feeding in the past few years.

In growing chicken broilers it is now possible to obtain one pound of live weight for every



two point eight pounds of feed used. This figure has been reduced from three point three pounds in the past three or four years. There is a great deal more to be learned about this subject and we expect that substantial progress will continue.

We believe that there is a tremendous development ahead in the production and marketing of poultry in Canada, due principally to development of very economical large-scale methods of growing poultry. There seems to be no foreseeable difficulty in increasing poultry production many more times still.

The growing of all live stock depends to a large extent on the availability of feed grains. There is no doubt about Canada's ability to produce a surplus of grains above domestic requirements for a long time to come.

Canada has no special natural advantage in the production of beef or poultry over many other producing countries. If we are to be large exporters, hog products are the natural export meats. The reason for this is that Canadian farmers are producing a lean "bacon-type" hog. The production of this type of hog is the result of a lot of intelligent planning and hard work by the hog producers and the Federal and Provincial Departments of Agriculture since 1921. The purpose of all of this was to produce bacon





suitable for the British market. The result of it is to give Canada a special advantage over many other hog-producing countries.

Canadian farmers should be able to produce hogs as economically as those of any country because of our ability to economically produce large quantities of feed grains.

Canada has exported some pork products each year, at least since 1926. In 1944, this reached the equivalent of five million seven hundred and sixty-nine thousand hogs, all of which went to Great Britain. Great Britain is the principal deficiency market for pork products, and we should be in a favourable position to compete on this market because: (a) we are one of the few countries producing a suitable "bacon-type hog, and (b) we should have feed grains cheaper than countries which are now supplying the British market.

The main feed for hogs is grain, so that export of hog products is in this sense equivalent to export of grain. Therefore, export of pork products to the British market would seem a sensible policy for Canada and would, in some measure, relieve our surplus position on grains.

In recent years we have sold a limited amount of pork products to United States. This



currently amounts to the equivalent of five hundred and fifty thousand hogs per year. This market can certainly be developed further, but it will always be limited and based on a superior quality of product, made possible by our lean "bacon-type" hog. This export is only possible because our product can command a higher price than American product, and we could not compete with hogs produced in the United States, on price.

A word of warning is very timely here. For many years, a great deal of intelligent planning and hard work have gone into the improvement of hog quality in Canada. I have already spoken of the importance of this in the export field. It is just as important for Canadian trade. The maintenance of hog quality will ensure hog producers an adequate return for their product.

In the past few years the average quality of Canadian hogs has deteriorated. At the same time, the quality of Danish hogs has improved. At the present time, seventy per cent, I should have said approximate figures, three-quarters per cent either way, of the hogs marketed in Denmark are "A" grade, while only twenty-seven per cent of the hogs marketed in Canada are "A" grade. In Canada, this figure has declined from thirty-two per cent in 1946.



No effort should be spared to reverse this trend. The very large percentage of "A" grade hogs in Denmark allows them to pay higher feeding costs and to still compete in the British market.

In United States, hogs are produced more cheaply than in Canada. So far, United States produces a very small percentage of the lean bacon-type hog, but interests in this type of hogs has been developing very rapidly in recent years. It is probable that United States will make substantial progress in hog quality, and it is extremely important that Canadian producers continue to work hard to improve quality and to reduce costs by better methods of animal husbandry.

Increased production of live stock for Canadian requirements and possible export markets must, in the main, come from Western Canada. In Eastern Canada, as the population increases, less land will be available for agriculture and a greater share will be devoted to the production of dairy products, fresh vegetables, tobacco, etc. In Western Canada, very large amounts of agricultural land will be available for many years, both for pasture of live stock and for production of feed grains. This will undoubtedly result in increase of live stock slaughtering facilities in Western Canada. As





transportation charges become more and more an important part of the cost, there is considerable economy in slaughtering live stock near the source of production, thereby shipping only part of the live weight to the areas of consumption. We do not anticipate substantial growth in slaughtering facilities in the East. However, processing facilities to manufacture smoked meats, sausage products, etc., will expand very greatly in Eastern Canada.

Few people realize the extent or the rate of changes which have been taking place in packing house operations. Until very recently, almost all meat products were sold in bulk and later were broken down to consumer sizes in retail stores, to suit the taste of each individual consumer. Since the war, there has been a very rapid growth of self-service stores. This has resulted in the display and sale of many meat items in consumer-size packages. Many of these are prepared from bulk meats and packaged in the retail stores, but more and more they are being prepared in branded consumer packages in the packing house.

We believe that this trend will continue and that in the future a very large percentage of meat products will be prepared and packaged in consumer sizes in the packing house.



There are many technical problems to be solved to permit wide-scale adoption of this principle, but it is a natural trend because the packing house can effect considerable economies by efficient use of the by-products resulting from the preparation of the final package. Also, larger-scale organization of the preparation and packaging operations allows more efficient use of labour and better utilization of the very considerable capital expenditures required in machinery and space.

The trend to consumer-packaged meats is already resulting in greatly increased capital expenditures for space and equipment in the packing house. This trend will continue, and the capital investment per pound of products produced is bound to grow rapidly.

A large volume of cured meats is already being prepared in consumer packages in the packing house, but consumer packages of fresh meats are not yet prepared in the packing house to any appreciable extent. The reason for this is the technical difficulty of maintaining the quality and appearance of fresh meats for any length of time once they are broken down into small units. However, a large volume of fresh meats is packaged, displayed and sold in consumer sizes by the self-service stores, so that





the retail customer is already accustomed to buying a good many fresh meat items in this form.

A start has been made in supplying retail stores with consumer-packaged meats in a frozen form. This is one partial solution to the difficulty of maintaining quality and appearance of fresh meats. We believe it is likely that scientific advances in the reasonably near future will make it possible to pre-package fresh meats in the packing house. This would add a very large volume to the items sold in pre-packaged form and would greatly accelerate this trend.

At the self-service counter the consumer is more and more expressing preference for meats which are packaged in a convenient size and condition. This will force the packing industry into a more complex preparation and packaging operation.

There is another important effect of this change. As prepackaged meats assume more importance, the consumer preference for certain types of meats will be felt by the live stock producers. The industry will place more importance on grades of animals and will be able to pay a greater premium for the types which are more readily converted to attractive consumer cuts. This means that live stock producers will have an opportunity to secure a



greater return for their efforts by concentrating on quality. The natural corollary of this is that lower grades will be discounted more severely.

This seems to us a healthy and natural development which will allow all sections of the industry to secure an adequate reward for quality of workmanship.

I do not believe it is generally realized that very great advances have been made in meat processing in the past few years. The processing times for cured meats have been reduced from weeks to days, and at the same time, the quality has been improved. Many advances have been made in the utilization of by-products in the fields of agriculture, pharmaceuticals and chemicals. A great deal has been accomplished in increased labour efficiency by increased use of mechanization and by careful study and simplification of the very complex operations in the packing house. A great deal remains to be done.

We expect continuing and accelerated use of mechanization. The application of rapidly growing, modern technology and new techniques of study are bound to produce further substantial increases in pounds per man hour output. This is very important for the industry because, although the wage bill is a rather small percentage of the dollar sales, it is



very large compared to the net profit.

We do not believe that the packing industry in Canada has placed enough emphasis on scientific research in the past. A good deal has been done, but the pace of modern technical development demands a great deal more. In the past four or five years the amount of research in the packing house industry in Canada has grown very rapidly, and we believe that this growth will, and should, continue.

This research can be roughly divided into three main areas: (1) Fundamental studies of meat and the biochemical details of meat processing operations. These are long-range studies of questionable immediate value. Most of the processes used to deal with meat have been developed in an arbitrary way and are little understood. These studies are undertaken in the belief that a clear understanding of the biochemical mechanisms involved may well lead to radically different and better processing methods. (2) Utilization of by-products by chemically converting them to materials useful in the pharmaceutical and chemical fields. A good deal has been accomplished in this category. By-products of the packing house are used to produce many chemical and pharmaceutical products now. We expect that this field will continue to grow rapidly. It may easily be that major





discoveries in this field will form the basis for whole new groups of useful materials. (3) the study of improvement of quality and economy in processing methods for meat products. These studies of improvement of quality and economy in processing meats have produced results at least as important as those in the other areas mentioned. Shorter processing times improve keeping quality, improve colour retention, and many other results could be mentioned as examples. The pace of research in this field is accelerating. It now seems possible that the fairly near future may bring major advances in the improvement of keeping quality of fresh meats. A great deal of work remains to be done, but the possibility of packaged fresh meats which will keep for long periods of time with minimum refrigeration does not seem too remote. This could result in a dramatic change in present-day handling of meat products with substantially reduced costs of distribution and retailing.

THE CHAIRMAN - Thank you very much Mr. McLean, that is a very thoughtful and helpful presentation and I expect that all the Members of the Commission were impressed by the emphasis which you gave to the need for research and I would just like to say now that you are the only President of a major company in Canada who has come up through



the research department.

MR. McLEAN - Well I am biased of course.

THE CHAIRMAN - Well I don't know but I was going to say that if more Presidents of more companies came up through research departments it might be a good thing. I was very interested in what you had to say on the probable location, geographically, of the live stock industry in the future. It is your belief that the greater proportion of live stock industry will be located in Western Canada. Is that right?

MR. McLEAN - Yes. I don't mean by that that the numbers produced now in Eastern Canada may shrink.

THE CHAIRMAN - Oh No.

MR. McLEAN - I didn't mean that, they will probably grow at a greater rate but the greater proportion of the increase I think must come from Western Canada.

THE CHAIRMAN - We have heard a fair amount about the great opportunities for live stock production in Dr. Gushue's Province of Newfoundland but leaving Newfoundland aside for the moment -

MR. GUSHUE - You can't do that.

THE CHAIRMAN - Alright not leaving Newfoundland aside then - do you think that the farming set-up





in the Maritimes is likely to change and that there might be more live stock production there in the future, at least to the point where they would be, or would come closer to being, self-sufficient in meats?

MR. McLEAN - Yes I think they will come closer to being self-sufficient. I wouldn't go further than that. I don't think there will ever be a large surplus in that area.

THE CHAIRMAN - Premier Smallwood might question that statement but we won't. I want to ask another question. Do you find that you run into serious competition in some of your products with some of the subsidiaries in this country of American companies, because they benefit from the national advertising that spreads over all of this country or are you quite able to take care of yourselves.

MR. McLEAN - Well to start with, you know the difficulty of assessing the value of any advertising, but obviously a spill-over of advertising in American magazines and on radio and television must have some effect. Those effects are particularly in the three soap products, which would be shortening, margarine and soap. In shortening and margarine we have never felt that the problem was very serious. In other words, we have never felt that the amount



of gain by spill-over advertising in the States had amounted to much. In soap we are so very small indeed, compared to the other large ones, that I think it is impossible to assess the problem in that area.

THE CHAIRMAN - Have you any information about the share which the principal Canadian packing companies, yourselves and Burns, have of the Canadian market? Is it increasing or is it likely to increase or is it liable to decrease -- what I am really trying to get at is there a tendency for the industry to become concentrated in the larger industries - is there any question of that?

MR. McLEAN - No I think in answer to that question it depends on what kind of job we do, but I think that the tendency is the opposite actually. There are a great many very small, or I would say very small in comparison to Burns and Canada Packers, producers in the fresh meat trade, particularly in beef who have come into being since the war. For example, in Toronto I don't know what the total is, but there are two plants that have been erected right across the road from us whom I believe used to kill at the Spadina abbatoir, used to have their cattle all killed there at the Spadina abbatoir and now these people have got two plants going beside us, so that I think the tendency in the



fresh meat business is to have more and more smaller plants.

THE CHAIRMAN - I see.

MR. McLEAN - I think in certain other lines that is not true, in lines that require larger technical facilities and large capital investment but I don't think there is any great tendency shown to concentrate.

MR. STEWART - Mr. McLean, I was naturally interested in your judgment that the increase in live stock production would be to a substantial extent in the West. You have on page four of your statement that Canada has no special natural advantage in the production of beef over many producing countries. Earlier you referred to the trend in the demand which would suggest an increased input of grain in the preparation of your products.

MR. McLEAN - Yes.

MR. STEWART - Would this not tend to improve our comparative position?

MR. McLEAN - Yes I suppose it would to whatever extent that is true in Canada though I think it would be very close to true in the United States. The Argentine I don't know about, I have not sufficient knowledge about South American markets.

MR. STEWART - I am really thinking here of





the possibilities apart from the political considerations.

MR. McLEAN - Yes.

MR. STEWART - In marketing in the United States.

MR. McLEAN - Yes.

MR. STEWART - Now with respect to hogs, I realize that is a very difficult problem because we have geared ourselves in terms of quality and price to the British market but you refer to the fact that there seems to be a growing taste in the United States for the lean bacon type of hogs.

MR. McLEAN - Yes I think we have a very important present advantage. I think that there are definite signs in the last few years that we are dissipating that advantage. We are allowing the average quality of our hogs to slip and I think that this would be a disaster. We should be moving as rapidly as possible in the opposite direction because I am certain that the Americans will eventually move in that direction. I think it may be a slow process but they will certainly do so. The public is beginning to demand this sort of meat. It is evidenced by the fact that it has become easier and easier for us to sell the Canadian product to the United States at a premium price, a premium, that is,



over the American product and I am quite sure that the American hog producer will move in that direction. It may take him a long time but I think we should be away ahead of him in Canada.

MR. STEWART- Do you think we should be interested in the potentialities of the United States market?

MR. McLEAN - Oh by all means and I hope I didn't indicate that we weren't. There is a great deal of meat, there is an equivalent of between five and six hundred thousand hogs going to the United States market from Canada each year and that is growing. That is nearly all going in the form of canned hams and Canadian bacon, packaged in sliced form and specialty products. In other words, anything that can command a high price. I think that the only products we have a chance of moving into the United States are the ones we can command a high price for because of their quality. We can't compete with the United States hog producers and the United States packer on a price basis but as long as we can maintain our advantage there will be a market. It is up to the Canadians to improve their advantage on quality and I think there is lots to be done in the United States market yet. We have by no means reached the limit, we have just really made a start.





MR. STEWART - I take it that your discussion here of the packaging of fresh meats is the answer which you speak about in your brief - the rapidly growing self-service stores.

MR. McLEAN - I am sorry I'm afraid I don't understand.

MR. STEWART - Well apparently since the war you say there has been a very rapid growth of self-service stores. Would this trend towards the packaging of fresh meat be part of the answer to this problem?

MR. McLEAN - Well I think it might but I actually didn't have that in mind when I wrote this. It had not occurred to me. As a matter of fact the trend to packaging of meat, meats in consumer sizes, is one which I confess we have tried to, well let me put it this way, we have not tried to push it on the public. I am not very proud of that but we have been forced into this. It is not a case where we have been leading the consumer in this but that the consumer has been leading us and it has been I think entirely a development brought about by the growing number of self-service stores since the war which are based on the premise that you can do a job better if the consumer picks up his own goods instead of you serving him. They tried this out on



meat in order to effect economies and they do meats up themselves in their own stores -- wrap them in cellophane and put them on refrigerated counters where the customer can pick them out himself. Now that has been such a success with the consumer that we couldn't stop this now if we tried and we are no longer trying I can assure you.

MR. GRAUER - When I was in the Prairies I got the impression that hogs were a bit of an in and out proposition based upon the saleability of wheat and other grains and purely on the swings of the market. If this is so would that be a reason for the declining in the quality. That is, it would seem to me that if I were a permanent producer of something I would be much more inclined to regard quality as more important than if it were an in and out proposition but if that is not so, what are the reasons that you suggest.

MR. McLEAN - Well, that might be a partial reason but I don't know that anyone has been able to point at a simple reason for this. You see, at the same time that the hog quality in all of Canada has declined in the last seven, eight or nine years, from thirty-three per cent down to twenty-six per cent, the quality of hogs in Prince Edward Island, for example, and in the whole of the Maritime Provinces,



has gone up from thirty-six to forty per cent. It has gone up from thirty, or around thirty-two per cent, to almost forty per cent and I think that the principal reason that it has gone up - I am answering this in reverse I am sorry - but the principal reason it has gone up in the Maritimes is that there is a strong association of producers and they have paid a lot of attention to it and the Provincial Department of Agriculture has also paid a great deal of attention to it. It has been kept in the front of everybody's mind and they have paid continuous attention to it. I think that the main reason in the West is that they have paid less attention to it. Frankly I realize that is not a very good answer but I can't think of any fundamental reason for it going down. You could say that why it has gone down in this sense is that they have been feeding too much grain and not enough protein, that they haven't balanced the feed right, or that they marketed them too late. In other words, they let them get too fat, before marketing them, but why they have done those things, I don't know the answer. I am inclined to think, though, that the central solution to the problem is just a lot of attention and effort to educate and get the producer himself to realize how important it is to his long-term interest to improve the quality of the hogs. It is





just as important on the Canadian market as it is on the export market and one of the big reasons why it is becoming more and more important is that we find this trend - if you ship the carcass to the butcher, for instance, for fresh pork, he has not got as much control over the fat that is on it or the formation of the carcass, and the customer comes in and asks him to cut it and he can only cut whatever they want. And if you package these items in some cellophane or some kind of transparent packaging, so that the consumer can see exactly what she is buying, there is no question that she is picking up the lean one rather than the fat one, and if we get low quality hogs, with a lot of fat on them, we have to trim the fat off before we package it, so naturally the farmer will get more, that is, a higher price, for his lean meat than he will for his fat meat. So the question just lies on the high quality and I believe that that differential will increase more and more over the years.

MR. GRAUER : Having in mind the population projections, has your organization made any studies of the probable effects of increased consumption of meat on the production of wheat in the Prairies - have you any comments on that ?

MR. McLEAN - No I haven't - I am sorry.



THE CHAIRMAN: We are very grateful for your very thoughtful and useful submission Mr. McLean. We appreciate it very much. We will adjourn now until two thirty.

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Recess  
After Recess  
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THE CHAIRMAN: Can we come to order, gentlemen? Mr. Donald Smith, the Field Secretary for the Credit Union National Association is here, and if he will present his brief we are ready for him.

MR. SMITH : It is a very great privilege to appear before this Royal Commission on Canada's Economic Prospects and present for your consideration a brief covering the growth of the Credit Unions in Canada, the distribution of assets, the types of activities financed by Credit Union loans, and finally the financial relations among credit unions on the one hand and other financial institutions on the other. The brief is presented by the Credit Union National Association, through their Canadian Head Office, CUNA House, at Hamilton, Ontario, representing twenty eight hundred credit unions in Canada.

If this procedure is satisfactory to you Mr. Chairman, I will quote from the brief itself and then answer any questions you may care to ask.





Credit unions are incorporated by Provincial Governments in the ten Provinces of Canada, are examined annually by a Department of Government charged with this responsibility. Each credit union is governed by a Board of Directors whose duties are set out in credit union law, to direct the affairs, and take necessary action to improve the service to individual members.

A Credit Committee whose responsibility is to approve loan applications for provident and productive purposes, made to members only of the credit union.

A Supervisory Committee whose function is to examine the affairs and to act as auditors of the credit union.

The purpose of organizing a credit union is to combat usury, to place the buying power in the hands of working people through low cost credit, this service to be financed through the accumulations of thrift. Saving regularly small amounts of money on the part of a group of people, who have a common bond of association, such as employment in industry, Government (Municipal, Provincial and Federal), membership in churches and associations.

Credit unions have the endorsement of



leaders in church, government, business, educators and opinion-makers throughout Canada.

An employee credit union is designed primarily to work closely with management in improving relationships in a given industry or business, in eliminating garnishments, company loans and pay advances. Experience usually results in increased production when the employees have a close-at-hand agency where financial problems may be solved on a business basis with people whom they know.

Banks and finance companies do not always serve the same field as the membership of a credit union. We are told the banking industry receives little return on accounts with less than two hundred dollars in savings, or in personal loans of less than four hundred dollars. Credit unions have attained a great number of the objectives for which they were created.

It is admitted that because of their autonomous nature, various groups have deviated to some degree from original purposes entering into fields which give concern to many leaders.

To sum up, therefore, it may be said credit unions are entirely unique in their purpose, outlook and operation. Many other financial institutions are unable, nor should they be expected to offer the



same kind of service a credit union provides for its members. Owned and operated by the members for their own mutual benefit, credit unions can afford to take a personal individualized approach. Their primary goal is to help each other put basic thrift principles to work in daily life. It is not unusual for credit union officers to spend hours of their spare time helping a member untangle a money management problem even when no question of a loan is involved. It is common practice for credit unions to encourage deposits, some so small it would not be economical for banks to handle. We estimate ninety-six per cent of the money deposited in credit unions would not otherwise have found its way into savings accounts.

Credit unions are charged with the function of granting character loans to members only, from savings that have been accumulated through the practice of thrift. Thus, the credit union has little access to funds other than those belonging to the group of individuals comprising the membership. Some rewards are available to individual members who practice thrift, dividends on savings are usually paid annually after the required reserves for possible bad loans and losses have been set aside. The average dividend for Canadian credit unions is three per cent. Perhaps I should add to that that we now estimate that





last year approximately three million dollars was paid by credit unions to their members either in the form of dividends on share capital or interest on deposits or in patronage rebates on interest which had been paid on loans. In addition many credit unions return to their borrowing members a portion of the interest paid by them during the year. This ranges from five to twenty-five per cent in any one year.

Believing all debts should die with the debtor, eighty-seven per cent of affiliated credit unions insure unpaid loan balances in event of death or disability of the borrower. As an incentive to savings many credit unions carry life insurance in an amount of the members' savings. As the premium is paid by the credit union, insurance is considered an added dividend.

CUNA Mutual Insurance Society (owned and operated by credit unions) has paid in claims in Canada, 1935 through 1954 three million, three hundred and twenty-seven thousand dollars on behalf of dependents of credit union members. An important contribution to Canada's economy.

Prudent operation of the insurance company has resulted in a reduction in premiums for the same period as above of seven hundred and eighty-nine thousand dollars through dividends. Canadian credit



unions at September 30 last carried two hundred and fifty million dollars loan insurance as well as savings insurance on the lives of their individual members.

In addition to owning Credit Union National Association, CUNA Mutual Insurance Society, the organized credit union movement is owner of CUNA Supply Cooperative.

Credit Union National Association (CUNA) was organized to (1) bring credit union services to the people of the Western Hemisphere; (2) to give permanency to the credit union movement; (3) organize and assist leagues and chapters of credit unions; (4) to maintain a high standard of organization, operation and supervision (5) to create service organizations owned and operated by and to serve members only.

CUNA Supply Cooperative produces books and records, educational and promotional literature.

CUNA Bonding Service provides all inclusive protective fidelity insurance on credit union officers and employees. The objective of CUNA Bonding Service is to insure credit unions to one hundred per cent of assets against most hazards facing financial institutions. Seventeen million, one hundred and sixty-six thousand dollars of coverage is carried





from this department of the Credit Union National Association.

Credit Unions accept chattel liens as security; because of technical requirements a chattel lien non-filing bond insurance has been added to services offered by CUNA. In fact, many safeguards are provided because of purchasing power created through organization. For example, Directors accident insurance, retirement savings programme.

With the exception of Newfoundland, where individual credit unions are affiliated, provincial credit unions are represented by a Credit Union League which is affiliated with CUNA.

The League organizes, protects and assists credit unions in performing a better service in the field of personal finance, thrift and credit. Provincial autonomy of credit unions carried with it league responsibility in negotiation with governments of the provinces in the field of enabling legislation.

Credit unions were first organized in Germany during the transition from industry in the home to mass production. The year 1848 has been set aside by the organized credit union movement as the first year in which credit unions were created. William Frederick Raiffeisen, the Mayor of a small town in Germany, organized the early credit unions.



Their popular appeal to working people prompted the spread of various types of credit unions in Belgium and the low countries, in France and Italy. Through the interest of representatives of Britain, credit unions were introduced throughout India subsequent to 1848.

Alphonse Desjardins of Quebec, a Hansard reporter (in the Federal Government) at Ottawa, learned about credit unions in France and commenced an investigation of their services resulting in the organization of what is known as La Caisse Populaire (differing in some respect from credit unions). This Association was created in Levis, Quebec, in the early 1900's.

As a result of the discovery of credit unions in India by Edward A. Filene, a Boston merchant, Mr. Desjardins was invited to the United States and in co-operation with Pierre Jay and Mr. Filene organized the first credit union in the United States in 1909. Subsequently, Mr. Filene financed the organization of the Credit Union National Association (CUNA), employing the late Roy F. Bergengren who secured most of the credit union laws in the U.S.A. and collaborated with representatives in Canada in writing laws for the various Provinces, with the exception of Quebec.



The difference between a La Caisse Populaire and a credit union is marked in some degrees. Often, both are organized under similar legislation and for that reason statistics normally presented by the CUNA Year Book include the La Caisses Populaires of Canada

The La Caisse Populaire basically is a parochial organization and is organized for the purpose of practising thrift and extending credit in a manner similar to credit unions. Since inception, La Caisses Populaires have concentrated on thrift and security, often requiring loans to be secured by mortgages of real property.

In connection with the organizing of credit unions, Mr. Bergengren organized the first credit union (as we know them) in Canada in the year 1930 at Welland, Ontario. Bergengren also organized the first credit union in the Province of Nova Scotia during 1932 adding impetus to the Antigonish Movement. From the inspiration, leadership and guidance of the then Credit Union National Extension Bureau, financed by Mr. Filene, a great many individuals in Canada voluntarily organized and assisted in development of the credit union movement.

More than forty-five thousand Canadians are voluntarily engaged in the important job of running Les Caisses Populaires and credit unions. In





addition, we estimate four hundred and fifty-eight persons are employed on a full or part-time basis among the credit unions of Canada, two hundred of these are employees of Les Caisses Populaires.

We present figures showing the "growth of credit unions in Canada" from 1931 through 1955, in ten year census periods. Gentlemen, I think as you have these figures before you I will just skip over them to the next page.

THE CHAIRMAN - Yes certainly.

MR. SMITH - "The types of activity financed by credit union loans" differ with the area and fields of operation. In rural areas farmers use credit unions extensively for various purposes, including payments for land, capital expenditure, farm machinery repairs, purchase of livestock, automobiles and trucks, building improvements and consolidation of debts.

In the operation of the farm, credit union loans provide seed, feed, gas and oil, harvest threshing expenses, wages, taxes and insurance. Or, farm personal loans are made for medical, dental and hospital expenses, education, income tax and life insurance.

Home improvements forms a large part of urban credit union loans. Consolidation of debts,



investment in Government bonds, household furniture and equipment, automobiles, medical, dental and hospital expenses, food and clothing, income tax, life and other insurance premiums, are a few of the purposes for which loans are granted.

Normally credit unions do not make loans to commercial enterprises, cooperatives, etc. Such service is often provided by cooperative credit societies. National policy encourages credit union loans to individual members for such investments, rather than avoiding long term lending.

In Maritime Provinces, many credit union loans are made to fishermen for the purchase of vessels, equipment, gear, nets and other purposes. With the change in the way of life, incidental to the production of automobiles, television sets, radio and other heavy consumer goods, the trend of credit union loans has entered into this very important field.

Government Legislation now permits credit unions to use guaranteed loans to fishermen services under Bill Number 452.

"Financial relations between credit unions". Provincial laws often permit the membership of one credit union in another, in addition a credit union may purchase shares or make loans to another credit





union. In several Provinces credit unions are affiliated with a Central Credit Union, serving credit unions only. In others Co-operative Credit Societies have been created serving credit unions as well as commercial enterprises. Recently, the Government of Canada enacted legislation permitting the formation of a National Co-operative Credit Society whose purpose will be to operate inter-provincially. Credit unions and Central Credit Departments are generally restricted to operations within provincial boundaries.

In Ontario, for example, credit unions affiliated with the Ontario Credit Union League operate a Central Credit Department restricted to credit unions only. This situation differs by province. When the demand for withdrawals and loans exceeds the funds available the credit union may borrow from a bank, a Central Credit Union, or a Co-operative Credit Society, depending on its affiliation.

Credit unions were originally organized to supplement the services provided by banks and financial agencies. By law, the funds of a credit union must be deposited in a chartered bank or a Co-operative Credit Society, if such exists in the Province. The decision with regard to the place of



deposit rests with the Board of Directors of the credit union. To a degree the relationship between financial institutions and credit unions in Canada is good.

While some doubts may be expressed on the question of competition, the Credit Union National Association, through its Public Relations Department, does maintain close association with licensed financial institutions in Canada. While it is admitted there is some competition between Small Loans Companies licensed under Federal Law, and credit unions under Provincial Law, the relationships at least from the credit union point of view are excellent at the present time.

Many credit unions use the service of chartered banks, or loan and trust companies for the depositing of their funds and for borrowing. In addition to those services already created among credit unions, investment of surplus funds are maintained in the bonds of Canada and its Provinces. This is particularly true among Les Caisses Populaires in the Province of Quebec. The National Office carries an extensive investment programme through the Investment Dealers Association of Canada and one of Canada's trust companies.

What of the future? Given freedom to



organize, adherence to original principles, strict examination by government agencies, increased education in personal finance (often neglected by credit unions) it is safe to predict seven thousand five hundred credit unions by 1965 - two and a half million members loaning seven hundred millions annually from savings of one and a half billion including reserves of one hundred and twenty-five million. Thus, it is possible to estimate a saving of five millions annually from low interest rates. Such a saving would be used to purchase additional consumer goods resulting in greater production, keeping the wheels of industry turning because, the average man can buy the things he helps produce. Many of the so called luxuries may be purchased with savings in interest through credit unions.

First we would recommend the Commission to recognize and endorse the importance of Credit Unions in Canada's economy. Secondly, the Commission render an opinion of a Credit Union Law for Canada. It has been suggested the Canadian Credit Union economy would benefit through a Federal Law for the following reasons: Such a law would cover protection of existing Credit Union laws; secondly it would provide an alternative method of organizing new credit unions; thirdly it would produce a model





credit union law for all Canada and fourthly it would standardize methods and operations of Credit Unions.

THE CHAIRMAN: Thank you very much Mr. Smith, I will mark your submission No. 145 for the Record, and I would like to thank you for sending it in early; I know that I, for one, had an opportunity to read it some weeks ago and I found it very helpful when we received an interesting submission in Quebec, from Senator Viancour of the Caisse Populaire. Now in your recommendations you have referred to the desirability of a Federal Law dealing with Credit Unions. What has been the reaction to that proposal so far? I presume that you have made the suggestion to the appropriate authorities, from time to time?

MR. SMITH : I don't think that any specific recommendation has been made, too definitely, on this. It is rather a new idea, and we felt that this commission itself might give some study to the possibility or the advisability of having such a law. In the United States, for example, there has been a Federal Credit Union Law ever since Nineteen thirty four, quite apart from the State Laws, and we do feel that at the present time, the development of such a law here would greatly benefit the Credit Union movement, and would act as a guide to the laws which are presently in force in the various provinces.

THE CHAIRMAN: I think that this Commission



is interested in any facts which might influence the speed and the direction with which the Canadian economy develops. However, I think there should be limits to these things. For instance, I think that if you think this is a good idea, I don't think you should suggest it to us, and then expect that that is the end of it. If you really think it is a good idea, I think you have a responsibility to present it to the appropriate authorities in Ottawa.

MR. SMITH : Well that, of course, would be our intention - we simply wanted it to be brought to the attention of the Commission.

THE CHAIRMAN: Yes.

MR. SMITH : Perhaps a bit of background information might be helpful to you -- the second reason listed in the brief, for suggesting such a law, is to provide an alternative method of organizing. We do find that at the present time, in some areas of Canada, there is a reluctance, on the part of agencies responsible for the administration of Credit Unions, to grant charters to new groups, in other words, there are several Canadian provinces in which there are no new credit unions being organized. That is not so much because of any obstacles in the Provincial Law, but because of the policies, perhaps being established by those who administer the law, and there are people





who desire to have credit union services, who are not able to obtain them simply because they can't get an opportunity to organize. Now the existence of a Federal Law would give them an opportunity to have an alternative method of organization and we believe that this is important to the future development of our economy - that credit unions are organized, in all areas of Canada.

MR. GUSHUE : Does that have any relation to alternative methods of incorporation ?

MR. SMITH ; Yes.

MR. GUSHUE : Either under a Provincial Act, or the Federal Act.

MR. SMITH : That's right.

MR. GUSHUE : I see. How do you distinguish between them ? I can't get the distinction very clearly between credit unions and co-operative credit societies - they seem to work in the same field but the co-operative society does not necessarily work within your framework - is that right ?

MR. SMITH : Co-operative credit societies are Provincial organizations - central Provincial organizations, to which in most Provinces, both credit unions and co-operatives may be affiliated and primarily, as I understand it, their function is to act as a depository or place of investment for the



surplus funds of those organizations; they are a source to which any other credit union or co-operative may turn to borrow funds for their operations so that credit unions are individually organized, and are affiliated through their Provincial League, and the National Association - the formation of co-operative credit societies is a departure to some extent in that it broadens out into the field of commerce.

MR. GUSHUE : They have no responsibility for each other, but they may work together, is that correct ?

MR. SMITH : That's right; Now of course, there is a National organization - the National Co-operative Credit which has been organized and which I think I have referred to in the Brief, whose purpose will be to loan inter-provincially.

MR. GUSHUE : You refer also to shares -- you can sell shares in the various Unions, as I understand it ?

MR. SMITH : Yes, most credit unions have a system whereby the savings of members are divided up into shares for the purpose of calculating dividends at the end of each year - there are some credit unions which accept deposits from members in addition to payments on shares, but primarily, the trend today is towards eliminating deposits and just simply using the share system as savings for the members.



MR. GUSHUE : I see --- instead of making a deposit he can withdraw - as in the case of a Bank - and buy shares - and as you put in your deposit, you are credited with shares ?

MR. SMITH : Well -- it works in exactly the same way as making a deposit - a member makes a withdrawal on a share account just as he makes a withdrawal on a deposit account.

MR. GUSHUE : Can a union buy back his share ?

MR. SMITH : A credit union ?

MR. GUSHUE : Yes ?

MR. SMITH : No.

MR. GUSHUE : If he wants to get his money out, how does he go about it ?

MR. SMITH : He just simply applies for a withdrawal-- it operates just simply as a deposit account.

MR. GUSHUE : They just cancel out, is that right ?

MR. SMITH : Well, the dividend is determined at the conclusion of the year's business, whereas in respect of a deposit, it is put before the Board of Directors.

MR. GUSHUE: There is a write-off of those shares, I take it ?

MR. SMITH: Yes.

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THE CHAIRMAN: The next submission is from the Ontario Hog Producers' Association, and will be





Exhibit No.146, so Mr. McInnis if you are ready now?

MR. McINNIS - I would like to express to you, the members of this Royal Commission on Economic Prospects, my thanks for having this opportunity on behalf of the Ontario hog producers to report to you on the importance of the hog industry in Ontario; some weak spots within the industry as well as some of the trends which appear in both the production and marketing field during the next twenty-five years.

I appreciate the importance of the work you are trying to do. The information which you are able to gather and the recommendations which you will make will, I feel, be of inestimable value to the people of Canada in planning to meet the challenge which will present itself to us in preparing to provide food, clothing, education and other services to the rapidly increasing population of Canada.

The hog industry is a very important part of our agricultural economy in Ontario. Of the total cash income of agriculture in 1954 in Ontario of seven hundred and four million, five hundred and forty-five thousand dollars, nearly one-fifth of it, or one hundred and twenty-two million, one hundred and sixty-thousand dollars was derived from the sale of hogs. It is nearly equal to combined



values of cattle and calves. It is only a little below the cash income from sale of milk into the four branches of the dairy industry.

Approximately forty per cent of the hogs graded in Canada are produced in Ontario. The total hog marketing in Canada has, for some years, ranged from four and three-quarters to six and a half million hogs per year. In Ontario the marketing has been from one and three-quarter million to two and a half million hogs per year. The price of hogs in the last five years has ranged from a high of forty cents to a low of twenty-three cents per pound dressed weight.

If hog production was discontinued in Canada it would result in Canada spending several hundred millions of dollars in other countries for pork products.

In the war period, the United Kingdom depended on Canada for a very large portion of her pork supplies. The producers of hogs in Ontario and all of Canada made a major contribution to the winning of the war by supplying the United Kingdom with pork products.

With the large volume of coarse grains produced in Western Canada, and the ability of the western farmer to increase this volume along with the





increased possibilities of production of grain in Eastern Canada, our capacity to produce hogs in Canada is so great that it can scarcely be estimated. This one thing appears certain; there is no indication of the increase in population in the next twenty-five to fifty years reaching a point where we could not supply their requirements. Nevertheless, there are certain other factors which have affected production in the past and will in the future. The main factor is the relationship of the price of hogs to the cost of production. Farming is being recognized by those engaged in it as a straight business proposition with large capital investments and producers cannot afford to continue in any line of production unless there is at least some profit to be made from the business.

The hog barley ratio figures point out that the production of hogs is tied very closely to the cost of grains but, with increased labour costs and the alternative uses for capital invested, the relationship of total costs to the sale price of hogs is bound to have a greater affect upon production trends in the next twenty-five years than it has in the past. In view of this important fact, it is imperative that we, as producers, have greater control over all of those factors which affect the



price of hogs so that we may be able to assure the people of Canada of their supply of pork products.

Another factor which may play an important part in determining the number of hogs to be produced in this country will be our ability to prevent or control contagious diseases in swine. It would, therefore, appear to be in the national interest that the governments at national and provincial level make more money available for studies of research in the field of swine disease as well as ways and means of controlling and eradicating such diseases as soon as they appear. In this effort, producers must be prepared to co-operate with the government authorities.

The cost of producing hogs consists mainly of feed, labour and capital investment. In view of this fact, hog prices which make production profitable is bound to bear a relationship to the price of grains. As it takes about twelve hours of labour to produce a hog ready for market, there should be an allowance of from twelve dollars to fifteen dollars for labour. In addition to this, interest on capital invested, risk and marketing costs must be taken into consideration. The costs of producing hogs appears to vary in different parts of Canada due to the amount of feed which is required



to produce a hundred pounds of pork. It is quite evident that the number of pounds of feed used to produce a pound of pork is much greater in colder climates than in the more moderate temperatures. This has been a factor in encouraging hog production in Ontario with the use of grains grown in Western Canada. The extremely cold weather in Western Canada makes the growing and breeding of swine into the winter months more hazardous as well as costly, and it would appear that from a national standpoint it would be cheaper to ship grain from Western Canada East and to increase the volume of hogs produced in Eastern Canada.

If hog production is increased in Western Canada though, it is likely to be on a seasonable basis which will result in heavy carry-over of stocks from one season to the other. The total consumption of pork in Canada does not vary greatly though from one season to the other.

The completion of the St. Lawrence Seaway should provide cheaper transportation costs for grain to Eastern Ontario, Quebec and the Maritimes.

The D.B.S. reports, giving the per capita consumption of pork in Canada, would indicate that except in periods of extremely low purchasing power on behalf of the consumer, our Canadian people will





consume about sixty pounds of pork per season, including some canned pork. With our present population, we are consuming in Canada about five and one-half million hogs per year, which are graded and processed in packing plants, in addition to those killed by small butchers and as well as those killed on the farm.

A factor which does affect our per capita consumption is the quality of our hogs or what might better be referred to as the percentage of fat in our hogs. Records indicate that the consumers of Canada are no longer consuming fats in the same proportion as earlier years in our country. The question of quality will be dealt with later but, in passing, it must be recognized that it is a determining factor in our domestic consumption.

Prior to 1951, our main outlet for exportable surplus of pork products was the United Kingdom. The shortage of dollars in sterling countries as well as the lower value of sterling in dollar countries has resulted in the temporary loss of this export market. We have been shipping in the last two years nearly sixty million pounds of pork to the United States. Reports indicate that there is a large outlet for Canadian pork products, particularly hams, cured and canned, as well as bacon. These cuts sell in the United States market as a specialized product



and therefore are not generally considered to be in competition with the American pork products. Reports from the American market reveal, however, that hams from some European countries are selling in the United States at a premium over our Canadian hams. The larger percentage of hams exported by Canadian firms are of top quality and just as good as the European product but, unfortunately, some hams being exported to the United States from Canada are not as good as could be desired or can scarcely qualify as a special product in that country. This would indicate that there should be closer government inspection of the quality of hams and bacon being exported to the United States. As producers in Canada have to sell their hogs on a graded basis, and payment to the producer is made on a graded basis, and grading done by government appointed graders, we are justified in suggesting that our government grade our export products. If the pork products going into the United States were required to meet a certain standard, or were sold on a graded basis, it might give the Canadian producer a profitable market in that country for several hundred million pounds of product. It is not enough to suggest that the processor should give more consideration to the quality of product which he exports, but





we, as producers, have got to be more conscious of quality. In producing fat hogs containing an unnecessary amount of fat, we are similarly entering into competition with the producers of vegetable oils who, without a doubt, due to cheap labour in warmer countries where these vegetable products are produced can produce fats cheaper than we can ever hope to do it in the form of pork. The differentials in price between the different grade of hogs in Canada at the present time is not sufficiently wide to encourage a quality programme and the government premiums which are being paid on the top grades in order to ensure the consumer of a better quality of products have not been increased in relationship to the general increase in values in Canada. It is therefore argued by some general producers that it is more profitable to produce the lower grade products.

If the quality of Canadian hogs is to meet the needs of the growing population in Canada, several steps must be taken. First, wider differentials between grades. Second, higher quality premiums paid. Third, our grading standards which were set up a number of years ago to meet the requirements of the United Kingdom market should be revised so as to meet the needs of present day markets in Canada and the United States. These standards should be such



that they would more clearly define the type of hog, the percentage of fat and the total dressed weight. As standards have to be uniform across Canada, Ontario producers have not been successful in persuading producers in provinces other than the Maritimes to approve of new grading standards and a change in differentials between grades and premiums.

The consumption of pork in Canada could be further increased if the processors used a slower method of cure rather than the present more speedy method which results in the finished product losing more of its original flavour and having a softer texture.

In addition to the domestic requirements and weekly export outlets, there is likely to appear at times additional surpluses which have to be carried from one period to the other. A matter of deep concern to the producers at the present time is the handling of the surpluses and their affect upon market prices. These surpluses may be handled by the government when they have depressed prices to a low level and the government deems it in the national interest to apply price support under the provisions of the Agricultural Products Marketing Act of Canada. This program has protected farmers from time to time and is certainly justified in a national crisis. If



these surpluses are to be handled by the trade, they may endeavour to secure them at depressed prices so as to protect their investment. This surplus may only represent five or ten per cent of the total production, but all of the production may fall to the value at which the trade is prepared to handle the surpluses. When this occurs, it destroys the proper balance between producer costs and the price which the producer can receive for his product and, therefore, results in a general decrease in production. Then this is usually followed by a scarcity of the product the following year with prices reaching a high peak which is sometimes unfair to the consumer on one hand and also lowers the consumption of pork products on the other.

As producers, we have a responsibility to the increasing number of consumers in Canada, in preventing these periods of scarcity accompanied by extremely high prices. We owe it to ourselves to prevent small surpluses from depressing prices to extremely low levels. The trade cannot be expected to handle them in the interests of the producer. It is the producers' responsibility and it presents to producer, collectively, an opportunity to stabilize his industry and protect himself and his customer, the consumer. To this end, producers must be prepared





to undertake the responsibility for the sale of small burdensome surpluses which may appear from time to time. The regular supply of pork products for the next twenty-five years will depend on our ability to do this.

In Ontario, and perhaps in most parts of Canada, producers have been concerned about and have improved upon their production techniques. They have, however, given too little consideration to their responsibility in the marketing of their own products. In a survey made in Grey County in 1950, the report reveals of one thousand eight hundred and sixty-two producers contacted, ninety two point eight per cent had no understanding as to price when hogs were shipped from their farm and over forty-six per cent did not know the destination, market or packing plant to which their hogs were going. Generally speaking, the destination was determined by the commission paid by packers to the transporters which the producers engaged. This lack of interest in the marketing of their product has resulted in the trade paying, in most cases, a sum of money to the men who, as producers, we engage to transport our hogs if they will deliver them direct to a packing plant, a practice which is most undesirable and has resulted in the breaking down of confidence in our livestock



marketing system across Canada. This has also resulted in a small percentage of our hogs being sold on the open market. The volume of money spent in this way has run into millions of dollars, and has resulted in over ninety per cent of our hogs going direct to packers before they were sold.

Professor Latimer, formerly of the staff of McDonald College in Quebec, made a study of hog marketing in Ontario and in his report made the following comments, with respect to dealing with the direct deliveries to packing plants: "Bargaining power of the feeder is nil under such arrangements." He further commented - "This is such an unsatisfactory method of marketing as to be almost unbelievable. No better method could be devised of depriving the feeder of bargaining power."

An outstanding livestock man in Canada stated, in a public address, that salesmanship was a lost art in the livestock business.

In order to build some confidence in this industry and its marketing program, the hog producers of Ontario established, in 1952, a Hog Marketing Agency, who have been selling all hogs sold for processing purposes in the Province of Ontario. This Marketing Agency was set up under the provisions of the Ontario Farm Producers Marketing Act





and Regulations thereunder. This move on behalf of Ontario producers has greatly enhanced their bargaining position which has resulted in a wider spread between Ontario markets and Western markets as well as Ontario and the United States markets. Under this plan of marketing, the processors pay the producers' agency for his purchase of hogs, and the agency pays the producers. Payments to producers are going to them, in most cases, quicker than previously when delivered through the drover. The producer gets a statement giving him all the marketing costs except that which the processor pays the transporter for delivering the hogs to his plant instead of the open market. One of the greatest difficulties in this field has been the control over the deliveries of hogs to the open market and to the buyers who are willing to pay the highest price.

Arrangements have been made by the Agency whereby all cheques can be cashed at par by the producers at any chartered bank in Canada.

We are endeavouring to restore open competition on the public markets, and to assure those who are willing to pay the highest price that they will be able to buy the volume which they require. To accomplish this, we are opening stock yards at the major centres where hogs are processed and are



directing hogs to these public stock yards for sale to the highest bidder.

Ontario hog producers are fast becoming conscious that marketing is just as important to them as producing.

This progressive step in marketing on behalf of the Ontario hog producers has resulted in developing an interest in: (1) The volume which should be produced; (2) The quality of the product; (3) The value of salesmanship and (4) The proper handling of surpluses so as to not depress the market price of all the product. This can perhaps be best described as orderly marketing.

As marketing legislation is being generally accepted as a necessity in all Provinces in Canada, it would appear that, within ten years, the Provincial Boards will unite and establish a National Board to handle the surplus products, if they develop.

It is a self sponsored programme by the Ontario Federation of Agriculture and we believe is more desirable than government help upon which too many rely.

I am not in a position to speak on behalf of Beef producers, but I would suggest that abundance of grain being produced in Western Canada and with



large areas of grass land in Eastern Ontario, we can produce enough beef for a population of fifty million people.

The low price of milk for processing purposes will have the tendency to influence milk producers to turn to beef production. This trend is evident now and will continue for some five to ten years until our milk can be all used on the domestic market.

In conclusion I would like to suggest that I feel:

(1) The possibilities of increased hog production in Canada, and in particular in Ontario, is so great that we can meet the challenges of increased demand caused by a growing population of up to fifty million people or more.

(2) That the past trend of heavy production and low prices for one to two years followed by low volume of production and high prices will continue for perhaps another five years. Beyond 1960 it appears that we, as producers, will have sufficient control over the surplus that the low prices which cause shortage of supply and extremely high prices can be prevented to a large extent.

(3) That the producers will have developed in a few years a marketing system which will enable





them to curb speculative trends in the business.

(4) That in the period of 1960 to 1980, the production will be geared to demands of the market, both domestic and export.

(5) That a market for several million pounds of choice pork cuts could be developed in the United States if both trade and producer become more conscious of quality.

(6) That government should grade some pork cuts and in particular export products as well as hog carcasses

(7) That producers in Ontario will give more attention in the next twenty-five years to the sale of hogs leaving the processing to the trade.

(8) That the volume of hog production will be tied to costs of grain, labour and capital, rather than grain costs as in the past. Farmers have the ability to hold positions in industry and will do so if prices are not satisfactory.

(9) That there are indications that the buying influence of the chain stores may be stronger than the selling forces in the trade.

(10) That hog prices are not likely to be affected seriously by importation of pork products if we keep the quality of Canadian hogs to a high standard.



Our greatest danger of importation is of fat cuts from the United States which might be sold to lumber camps and in mining areas.

In general, the future of the hog industry looks bright if properly directed.

THE CHAIRMAN: Thank you very much Mr. McInnis.

MR. STEWART: My questions may be a little disjointed but I would like to ask Mr. McInnis one or two things - in the first place I gather you think the competitive position of the Hog Producer in Ontario is strong in comparison with the Western Hog Producer, as I understand it ---- and so, if we anticipate a growing market for farm products generally, including meats, then you think there would be a greater expansion in hog production in Ontario - rather than in the West ?

MR. McINNIS : That's right.

MR. STEWART : What was your past experience in this connection - when we had a higher hog production than we have today, where was the expansion generally, when markets were more attractive?

MR. McINNIS : Well, I think perhaps during a couple of years of the war period there was a greater expansion in the West, due to the surplus of grains which they had for several years before the War, and had not been able to dispose of. They





did go into hog production quite heavily - but as the war period went on, Ontario regained its former position and came back to about forty per cent of the production of Canada.

MR. STEWART : Would you agree that a good deal depends upon alternatives -- I notice you feel that beef expansion will also occur, probably more in Ontario, than in the West - is that correct?

MR. McINNIS : I rather think it will develop more in the East, due to unsatisfactory prices paid for milk - other than street delivery.

MR. STEWART : Oh - ~~so~~<sup>for</sup> that in general the expansion will be greater in Ontario, in the meat producing field ?

MR. McINNIS : Well, perhaps I would have said that would apply to Ontario and Quebec - particularly Ontario.

MR. STEWART : You have made reference here to a hog-barley ratio, which I understand has been a fairly good indication of the way in which production would move ?

MR. McINNIS : That's right.

MR. STEWART : And you say that the cost of production of things other than feed, will become increasingly important ?

MR. McINNIS : That's right.

MR. STEWART : It will be a factor then,



tending to stabilize production - if feed prices become relatively less important ?

MR. MCINNIS - Well of course, if feed ----

MR. STEWART : That is, changes in feed prices will not so greatly affect the situation?

MR. McINNIS : Yes, but there is another point I think - that people are going to be more conscious of labour costs now than they were previously - and there will have to be wider profits over the cost than presently exist - if producers are going to be interested in producing.

MR. STEWART : It is not so much a fluctuation problem as a problem of price level ?

MR. McINNIS : That's right.

MR. STEWART : With the general view that you have of the Ontario picture, do you feel that the problems of adjustment of production in this Province are going to be very difficult for farmers ?

MR. McINNIS : No - I feel that if the farmer got more control over the sale of his product, through his Organization being able to do a better educational job among producers, that there is not going to be so much difficulty as in previous years.

MR. STEWART : I would just like to follow up this question of controlling the market -- or of the product -- I am at a disadvantage in that I am



not thoroughly familiar with the situation in this Province; I gather, though, you mean by that, sale in the open market - or the auction market ? You have mentioned also, direct deliveries to the plant --

MR. McINNIS : Yes - it is running slightly less than ten per cent on the open market and ninety per cent direct delivery to plant.

MR. STEWART : When the hog is sold on the open market, is it sold un-graded ?

MR. McINNIS : No --- all hogs have to be sold on a graded basis.

MR. STEWART : I see- how does that work? If it is sold directly to the Packer it is sold on carcass weight - is that not correct?

MR. McINNIS : Yes, that's correct.

MR. STEWART : And if it is sold through auction - how does that work?

MR. McINNIS : Well there is no auction selling in Ontario as far as hogs for processing purposes is concerned, except probably at a few auction sales at barns, when a drover might buy some.

MR. STEWART : What do you mean by on the open market - here ?

MR. McINNIS : Well - we have an open market here, and we have our representative, Mr. Kohler, for example, the manager of our sales staff, and he negotiates with the processor as to price, and there is no





auction carried on similar to what we generally regard as an auction sale, or so-called auction sale.

MR. STEWART : Well - by open market you mean direct sales then - from your agency ?

MR. McINNIS : Yes - that's right - to the Processor.

MR. STEWART : And then the carcass is graded and the price is determined on the carcass basis ?

MR. McINNIS : That's right.

MR. STEWART : In order to get control of the prices or to be able to regulate prices - and I am not suggesting that what you have done now has not had some influence on pricing already -- but in order to effect the kind of arrangement that you seem to have in mind, and, incidentally, that would seem to suggest different prices, ---

MR. McINNIS : It might - yes.

MR. STEWART : Perhaps a price for a given quantity and then a price for what you describe as surplus ?

MR. McINNIS : That's right.

MR. STEWART : In Ontario, you couldn't effect that anyway because I am afraid the Western farmer would be quite likely to ship in hogs, into Ontario.



MR. McINNIS: No - what I have in mind is if the Provinces could come together and set up the National Board which I have referred to -

MR. STEWART : Do you think that might happen within the next ten years ?

MR. McINNIS : I feel quite confident that it will - yes. The interest is growing, among the producers of all provinces, so far as the market is concerned.

MR. STEWART : Is it possible under the legislation at the present time?

MR. McINNIS : Yes, it is in Ontario and some of the other provinces have legislation also - in Manitoba, Saskatchewan, British Columbia and the Maritimes, that would make that possible. There has been promise of legislation in Quebec and there is some legislation, I guess, in Alberta, but it is not too effective.

MR. STEWART : Well then it is possible to organize, now, on a provincial basis, is it not ?

MR. McINNIS: That's right.

MR. STEWART: Is it possible, under existing legislation to take the ten Provincial organizations and put them together in one selling organization ?

MR. McINNIS : Well that would be merely a matter, as we understand it, of the provincial organ-





izations delegating a National Board, shall we say, to handle the surplus product. The National Board would not do the selling; the provincial boards would do the selling, but what we consider to be the surplus might be handled through the National Board.

MR. STEWART : You do feel that that might be done without new legislation, then?

MR. McINNIS : Well, we think so - of course, the case that is going to appear before the Supreme Court, in April, might throw some light on that matter, but that is our thinking at the present time.

MR. STEWART : I am sorry I do not know the answer to this - but what is the real difference between the Ontario producers and the Western producers, with regard to grading standards?

MR. McINNIS : Well the same standards apply across Canada, but we believe in Ontario that they should be revised and should be subject to wider differentials and there should be increased premiums on the top grade. The Western producer, unfortunately, we feel is not so conscious of quality - he rather looks at the hog industry as a place where he might dispose of some grains when he happens to have them - some surplus -- we found that plain when we wanted to persuade them to come along with us in asking for higher



standards.

MR. STEWART: A bit of a maverick is he ?

MR. McINNIS : That's right.

MR. STEWART : Couldn't get along without him, though.

MR. GRAUER : On the discussion of probable trends of land use in agriculture, you thought that more hogs would be produced, and more land devoted to cattle production and less to dairy products. Is that over quite a long period of years, - as you know, we are interested in an approximately twenty five year period - taking that longer view, and assuming the doubling of the population here in Ontario, would you like to make any comments about the probable trend of land use ?

MR. McINNIS : Well over a longer period, if our population did increase to the figures which you have suggested, perhaps we could consume on the fluid milk market somewhere near the production of milk at the present time, but there is no question of doubt that producers who have to sell their milk for cheese, butter fat or for condensor purposes are very much dissatisfied and there is a tendency for them to swing over to beef production, where there is less labour and they have a greater future. But, as you have



intimated, if the population does come up, perhaps what is going into cheese and so forth, for export, could be consumed on the domestic market.

MR. GRAUER : What about products like tobacco, gardening vegetables and so on - how are they likely to fit into the picture ?

MR. McINNIS : Well, living in Eastern Ontario, I am not familiar too much, with the cash crop development in Western Ontario - Mr. Kohler, lives in Western Ontario and maybe he could express some views on that ?

MR. KOLHER : I am sorry, I am not familiar with that either - I am familiar with the hog producers - or the beef cattle men, myself, so I don't know too much about the cash crops.

MR. GRAUER : Well hog production has a relatively low labour-content, has it not - and how does it compare with cattle raising for instance from that point of view ?

MR. McINNIS : Well labour costs are probably not quite as high as cattle, but, there is a considerable labour content with hogs. If you are going to have an efficient production you have got to keep giving them a lot of care and it is not particularly desirable work, cleaning the pens and so forth -- there is an old saying that if you want to get





rid of a hired man in a hurry, you just suggest to him "go and tend to the hogs" and you have generally got to look for a new man. That is something the farmer has to look after himself.

MR. GRAUER : Most of the labour is in connection with the dairy - in the production of milk, is it ?

MR. McINNIS: That's right - there is more labour there.

MR. GRAUER : And then this contagious disease problem - is there much reason to expect that might be largely solved ?

MR. MCINNIS:- They were able to successfully eradicate foot and mouth disease when it broke out. But there is a lot of rhinitis, in the province and I understand up to the present time they haven't been able to find out just what is the cause of that. Rhinitis does not cause hogs, in a large percentage, to die, but their development is very very slow and it is unprofitable and it is very, very contagious. There are more and more complaints, I believe, of hogs being affected by it and that was what I was referring to and hoping that there could be some more study and research work on that disease in particular, which would eliminate the whole cause.

MR. GRAUER : Remedies are not available



yet, though, are they?

MR. McINNIS: No - they are not available yet.

MR. GUSHUE : You mentioned the desirability, as part of the premium for improved quality - of a payment of a higher premium ?

MR. McINNIS : Yes sir.

MR. GUSHUE : By whom are those premiums paid ?

MR. McINNIS : The Dominion Government pay a premium on "A" and "B-One" hogs. That is, at present, but it is the feeling in Ontario that we would rather have the whole of the money paid on the "A" Hogs. Now these premiums were originated for the purpose of ensuring to the consumer a better quality hog, and while they are quite often referred to as producer premiums, they are really in the interests of the consumer.

MR. GUSHUE : Does that apply only to hogs marketed in Canada ?

MR. McINNIS : That's right.

MR. GUSHUE : Not for export ?

MR. McINNIS : No - not if the hog is exported - no, it doesn't apply - but the pork product may be exported.

MR. GUSHUE : You mentioned also the desirability of a Government inspection of hogs or





pork products for export ?

MR. McINNIS: That's right.

MR. GUSHUE : And what time has been put into that - has that been attempted for some time or is that a new idea ?

MR. McINNIS : No--- it is just recently we discovered that there was a small percentage of our canned hams going to the United States, which were not of the best quality, and I can say that my understanding is that - and I hope you don't think I am boosting Ontario -- but this is my understanding, that our Ontario processors have not been putting out very good quality products and I understand that a few companies have not been as particular as desirable in supplying the American market with a quality product - and it has had the effect of lowering our position in the whole American market.

MR. GUSHUE : Has your Association made any approach on the subject of having an export standard?

MR. McINNIS : No but, of course, we propose to do so in the course of a very short time.

MR. GUSHUE : I see, thank you.

THE CHAIRMAN : Well thank you very much Mr. McInnis - this has been a very helpful submission. The Commission has decided to go on a five day week so we will adjourn until ten o'clock Monday, next week.

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The Hearing adjourned 4.30 p.m.



ROYAL COMMISSION  
ON  
CANADA'S ECONOMIC PROSPECTS

HEARINGS

HELD AT

TORONTO, ONT.

JANUARY 30, 1956

VOL. 27



The sittings of the Commission in Toronto were opened in the Committee Room, Parliament Buildings, Monday, January 30th, 1956.

PRESENT

Mr. W. L. Gordon, Chairman;  
Mr. Omer Lussier;  
Mr. Andrew Stewart;  
Mr. Raymond Gushue;  
Mr. A. E. Grauer.

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APPEARANCES:

Mr. David S. Holbrook,  
Algoma Steel Corporation Limited.  
  
Mr. H. G. Hilton, President,  
Steel Company of Canada  
  
Mr. Gordon Hamblin, President,  
Confectionery, Chocolate & Cocoa  
Industries of Canada,  
Mr. F.T.W. Saunders, General Manager.

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THE CHAIRMAN: Well, we might as well get started. Mr. Holbrook of the Algoma Steel Corporation is going to start the proceedings this morning and he has a submission here which will be marked Exhibit 147.

MR. HOLBROOK: Mr. Chairman, Gentlemen: I come before this Commission today with mixed feelings; as a representative of the management of Algoma Steel Corporation, Limited, I am glad to present our views of the development of the Canadian Steel Industry over the next several decades, for it is a bright picture we see, and optimism is pleasant to transmit.





At the same time, it is with the deepest regret that I am here at all. An invitation had been extended to our late President, Sir James Dunn, to give the Commission the benefit of his vision and it had been accepted.

Had Sir James appeared here today, the Commission would have had the greatest possible proof of unalterable belief in the future of the Canadian Iron and Steel Industry. He had devoted more than twenty years of outstanding ability and untiring effort to the development of Algoma Steel Corporation, Limited, and his every consideration was for its future. I can only talk of belief in the growth of the industry: he had lived it.

BASIS OF FORECASTS:

The Commission has asked for our views about probable developments in the Primary Iron and Steel Industry over the next two or three decades. In this connection, all of our forward planning in Algoma Steel is projected to a 20 year period which would permit a forecast to 1975 rather than 1980 or 1985. There are several reasons for this.

We believe that much of a steel plant becomes either worn or obsolescent in a 20 year period and accordingly it becomes a natural period for planning. Secondly, the industry is a progressive one which is undergoing rapid technological advances.

It is a sufficiently hazardous task to project thinking 20 years hence. If we had been standing in this room shortly after the close of 1935,



we would have experienced a year when the Canadian steel industry produced slightly more than one million tons of steel ingots, almost half a million tons less than the industry produced six years earlier in 1929. To have then forecast more than a fourfold rise by 1955 would have appeared incredibly optimistic.

The gigantic strides of the industry in the past few years; the maturing of secondary industries in Canada which are Steel's customers, and the natural optimism of the times may tend to make our forecasts appear high, but if so, we have distinguished company: Mr. Benjamin Fairless, President of the American Iron and Steel Institute, has just announced that the steel industry in the United States will add 15 million tons of annual capacity in the next three years at a cost of around three billion dollars. This is a rise of 17 percent. The British Iron and Steel industry has projected an increase of two and a half million tons in annual capacity by 1958, a rise of 13 percent.

Our predictions are based on a Canadian population of 24 million by 1975; an annual growth of 2 percent in the per capita use of steel; and general prosperity of the last ten years prevailing. Using these assumptions, in 1975 Canada will be consuming steel at an average rate to require the manufacture of 1,064 pounds of steel ingots per capita or about 12,800,000 tons of ingots per year. As the present capacity of Canada's basic steel industry is about 5 million tons per year, then it





is apparent that a growth of almost 8 million tons would have to be experienced if Canada were to be self-sufficient.

For the Commission's information, we have appended to this brief a chart showing per capita Canadian consumption during the last 20 years and an extension for the next 20 years made on these principles. The per capita consumption in the United States is also plotted for comparison.

A second chart is also appended showing total Canadian steel production for domestic use and consumption during the past 20 years and a forecast of total annual consumption.

FACTORS INFLUENCING CANADIAN STEEL GROWTH:

One can only talk about Canadian self-sufficiency in steel academically. There are many special steel products which an industry even two or three times the size of the Canadian industry could not make efficiently. However, the Canadian industry has been maturing rapidly in this respect. Twenty years ago steel produced in Canada for domestic consumption was about 60 percent of requirements. In 1955 this figure rose to about 73 percent and in our projections we have estimated that as much as 85 percent of Canada's requirements might be produced in this country by 1975.

This results in an estimate of possible economic growth of the Canadian industry to about 11 million tons annual capacity in 1975, an increase of 6 million tons from present capacity.



This results in an estimate of possible economic growth of the Canadian industry to about 11 million tons annual capacity in 1975, an increase of 6 million tons from present capacity.

In the period 1950 to 1954, the Canadian Primary Iron and Steel industry expanded in capacity by about one-third. This was mainly accomplished by the "rounding out" process of increasing the capacity of the individual departments of existing steel works where there was a departmental deficiency and by modernizing equipment, rather than by building complete new works. This has been expressed as a way of gaining additional capacity economically, and yet it is interesting to note that the four integrated steel producers alone spent about a quarter billion dollars during this period in gaining 1,270,000 tons of annual capacity, or about \$200 per ingot ton of annual capacity.

The Canadian steel industry has done an excellent job of "rounding out". When the accomplishments of the individual producers are analyzed, those integrated mills deficient in steel making furnaces have added pig iron and steel ingot capacity; those long on ingot capacity have added rolling and finishing equipment. Great strides have been made in developing iron ore to provide a major raw material for steel manufacture, and those companies with finishing mills and scrap melting capacity, or finishing mills alone, have made considerable progress in improving their ability to meet demands of the Canadian market.





The Canadian steel industry today is far better balanced than ever before in its history, and much of the additional capacity must be constructed the hard way. Much of the new product capacity will have to carry its own ore, coal, coke ovens, blast furnaces, steel making furnaces and rolling mills, and in addition, the railway systems, power generating equipment, pump houses, sewers, maintenance centers and the numerous other components which are as much a part of steel plants as rolling mills.

Under these conditions, we estimate that a large expansion of the Canadian Steel industry will cost \$300 per ton of annual ingot capacity at present construction cost levels.

Thus, if the industry is to increase its annual capacity to 11 million tons by 1975 it faces a potential investment of one billion, eight hundred million dollars in the next 20 years in keeping pace with 85 percent of Canada's steel demands.

Actually, a current cost of \$300 per ton can be only an approximation. Technological changes in making, rolling or treating steel in the next 20 years will strongly influence the cost of tonnage additions. Progress toward higher speeds, closer metallurgical control and higher machine productivity now being made in the steel industries of the world, will necessitate commensurate steps in Canada if we are to remain competitive. All of this costs more money.

Another factor which can strongly





influence cost of additional capacity is the extent to which the Canadian steel industry will be expected to reach self-sufficiency. Should complete self-sufficiency be attempted the cost per ton of annual capacity would be much higher.

With its record of accomplishment of the past five years; with increasing domestic manufacture of steel forms formerly imported; with increasing financial confidence in Steel as an investment; with a growing force of skilled Canadian workmen, and with increasing evidence of the responsibility of Steel Labour, we believe that it is eminently possible for the Canadian Steel industry to grow along with the general Canadian economy.

#### GEOGRAPHICAL TRENDS OF CANADIAN STEEL INDUSTRY:

The Commission is interested in the potential development of a basic steel industry along the St. Lawrence or on the West Coast.

Studies show that the province of Ontario consumes almost 60 percent of Canada's primary steel; Quebec and Eastern Canada, about 25 percent; and Canada west of Ontario, about 15 percent. We have not drawn any conclusions as to geographical trends which would change these proportions, but it is evident that all these sections of Canada from sheer growth can be expected to experience substantial increases in consumption.

We have been mainly concerned with the problems of economical production and distribution from Sault Ste. Marie, and have not seriously considered



alternative steel works locations. We do recognize, however, that it is impossible to generalize on the subject. Assembly costs of raw materials, size of total steel consumption, usage of individual steel products, and price of steel delivered from competitive districts, to name only a few factors, all make the location of a steel works a matter of tremendous importance and a subject for detailed study by qualified experts.

The members of the Commission have possibly heard of the problems in recent years attendant to attempts to justify the location of a basic steel industry in populous New England, with its large markets for steel, particularly by Canadian standards. This was studied, debated and re-studied, and still all the opinions on the subject have not been exhausted.

Of major concern in the Primary Iron and Steel industry anywhere is the transportation factor, due to the tremendous tonnages of raw materials required. Over four tons of raw materials are required for each ton of steel shipped. Water transportation is almost a requisite for economical assembly of raw materials if they are not close at hand, and for delivery of low priced high volume products any distance.

In the year just closed, Algoma required over two thousand million ton miles of water transportation for its raw materials and products.

In Canada, with its steel markets extending





four thousand miles from east to west, the expansion or continued prosperity of the existing steelmaking areas, or the location of new ones, is greatly dependent on economical and efficient transportation.

We call attention of the Commission especially to this fact as one which makes it difficult to predict geographical trends in steel plant location without contemporary forecasts of transportation costs.

INFLUENCE OF FOREIGN COMPETITION:

Of similar interest to Algoma is the Canadian tariff policy on iron and steel. The Canadian steel industry is not currently taking advantage of its already thin protection against imports, and has demonstrated that it is not a profiteering industry. At the same time, it is evident that this great basic industry, vulnerable to imports from low wage countries, cannot invest the tremendous sums necessary for facilities to keep pace with growing Canadian steel demand without assurance that in times of easy steel availability it will be protected from cheap imports at greatly reduced prices. This matter is now being studied in detail by the Canadian Tariff Board. We do not wish to argue the case here, but only call attention of the Commission to its important bearing on long range development of the Canadian steel industry.

The Commission has expressed interest in the relative production costs of steel made in Canada, Great Britain and the United States. We, of Algoma, are concerned with isolating, identifying and



controlling our own internal unit costs and are unable to speak with authority on the costs of the industry elsewhere.

We can give no specific help in this regard, but can make a few observations.

Hourly labour rates in continental Europe and Great Britain range from about 25 percent to 40 percent of those prevalent in the Canadian steel industry, and domestic steel prices in Great Britain are about 80 percent of those existing in Canada and the United States. Domestic steel prices in Continental Europe are at a level between Great Britain and North America.

With increased mechanization, labour productivity has improved in both the United States and Canadian steel industries in the last few years, but it has also improved at least as much in Europe. The advent of continuous mills and other highly mechanized production equipment installed at low cost, coupled with low labour rates, cannot help but make Europe a very competitive factor in coming years.

THE CHAIRMAN: Thank you very much, Mr. Holbrook.

MR. GRAUER: On page 8, Mr. Holbrook, I am not quite sure what is meant by the statement that the Canadian steel industry is not currently taking advantage of its already thin protection against imports.

MR. HOLBROOK: In that respect I believe that there is a good deal of misinformation regarding steel prices in Canada. Algoma has long





been established as a railway track producer. The price of steel rails in Canada today is the same as it is in the United States in dollars, the duty is \$6.00 a ton. We mean that as an example of the fact that the Canadian steel industry is not taking advantage of tariff protection at the present time.

MR. GRAUER: It means there is a leeway there?

MR. HOLBROOK: There is a \$6.00 leeway, if we were taking advantage of the tariff protection against the United States and yet the price of rails is the same.

MR. GRAUER: In your last remarks about the foreign competition advantage that European and British steel has, I suppose you assumed much the current division of markets, did you, in the 20 year projection? Was the protective factor given any greater weight than now?

MR. HOLBROOK: In our 20 year projection?

MR. GRAUER: In your 20 year projection.

MR. HOLBROOK: In our 20 year projection

we have assumed that over a period of time there would be some reasonable adjustment in the Canadian tariff policy. As I say, we do not wish to argue the tariff case before this Commission, but the tariff is essentially one of 1906 vintage and that is a lot more than 20 years ago but the Tariff Commission has already given some recognition to the fact that it is out of date. So that there is an assumption in our projection that there will be a reasonable re-alignment as to tariffs.





MR. GUSHUE: There is no export market of any account as far as the basic product is concerned in the Canadian steel industry?

MR. HOLBROOK: I can't speak for the Canadian steel industry in that regard. You will note on the chart on the last page, that is, the second chart, we have shown a comparison of Canadian steel construction and Canadian steel production for domestic use. We have assumed from the interest of the Commission that the primary interest was how close Canada could come to steel self-sufficiency. In our own case, for instance, this last year we exported steel ingots which is the basic crude form of steel to Detroit. We would not look on that as a normal market, nor does the exportation of that crude form of steel particularly help to fill Canada's need for steel. So that we have excluded exports of crude steel as being of interest to the individual producers and not to the Commission's interests in determining the needs of the Canadian steel industry to achieve a reasonable degree of self-sufficiency.

MR. GUSHUE: I notice on page 9 your wording with respect to tariff protection that it would be necessary that the industry be protected from cheap imports at greatly reduced prices. Can you state what the competitive position would be as between the United States and Canadian producers? Your reference is to just "cheap imports".

MR. HOLBROOK: The price of steel in the United States -- if we take a cross-section of



those products that we produce -- and the price of steel in Canada is approximately the same. The concern there is the fact that normal import steel from the Continent particularly is looked on more as a commodity. When steel is scarce, prices go quite high. When steel is plentiful the prices of their products are cut very drastically. It is of particular concern to ourselves that during times when steel is plentiful that there is some protection because the steel price is cut right down below Canadian cost levels. The transportation factor which I mentioned is also of paramount importance. In the city of Montreal it normally costs less to transport a ton of steel from Rotterdam to Montreal than it does from Sault Ste. Marie to Montreal, whether by water from Sault Ste. Marie during the summer or by rail all the year round. It is a fact also that during times of steel plentitude in Europe, salt water rates tend to be quite low. That further emphasizes the low prices and permits a competitive

MR. STEWART: What kinds of steel have been imported from Europe mainly. Are they just steel generally or particular kinds of steel?

MR. HOLBROOK: When you speak of recently, during this past year the imports have been at a relatively low rate because there is presently a world shortage of steel and we are told that the price of steel from the European countries is much higher than Canadian domestic steel presently. In 1954 when there was an excess of steel in Canada the price was considerably lower. Those forms of steel that are normally exported are





those that are standard sections -- structurals, reinforcing bars, those forms that are used widely for general purposes. With steel such as is used by the automotive industry of special chemical analysis, special dimensions and special heat treatment, the factor of service and delivery is of greater importance and therefore there is very little of that type of steel imported from the continent but structurals, reinforcing bars, standard plates to some extent are the main steel forms.

THE CHAIRMAN: In the first chart, Mr. Holbrook, showing the difference between American steel and Canadian steel consumption per capita do you expect the difference to widen?

MR. HOLBROOK: Mr. Commissioner, in the first place in looking at that chart you will note that it is represented on a three year moving average basis. We use that method so as to iron out the difficulties and the problems caused by strikes, inventory accumulations in anticipation of strikes, or the after effects of them. The Canadian steel consumption has been increasing at a rate of about 2 percent per annum per capita. In a similar period the American steel consumption has been increasing at a rate of about  $2\frac{1}{2}$  percent per year per capita.

Now, our production is based on that. The recent United States projections I have seen call for a steel industry capacity of about 160 million tons in that country by 1975. Since the present capacity is 128 millions in that country indications are that the exports over there would believe that the  $2\frac{1}{2}$  percent would probably



slow down a bit. I would not be personally qualified to answer that question as to giving a real opinion on it.

THE CHAIRMAN: Would you like to comment at all on what difference you think the Seaway will make, if any. Will it make it easier for Algoma to get into the Montreal Market?

MR. HOLBROOK: Mr. Commissioner, we in the steel industry look upon the Seaway as a mixed blessing. It will make distribution into Eastern Canada easier. It will also permit the entry of European steels more easily. Even without the Seaway we experienced sheet piling from the Continent being laid down in Toronto 25 years ago without the Seaway. Belgian wire was being laid down in Great Lakes plants at, I believe, a little less than the assembly cost of raw materials to make it. So that I believe that as far as our opinion is concerned an analysis of the effect of the Seaway would have to be reserved until we see what the attitude of the Tariff Commission will be regarding proposals which have been made to it.

THE CHAIRMAN: Thank you very much indeed, Mr. Holbrook. It is very nice to see you and we are very grateful to you.

I think we will break off for about five minutes before we proceed with the submission of the Steel Company of Canada.

--- Recess





--- After recess

THE CHAIRMAN: Will we come to order, gentlemen? The next submission is that of the Steel Company of Canada, which we will mark Exhibit 148. Mr. Hilton, you may start off by telling us about the driving conditions this morning.

MR. HILTON: Well, they were just bad enough so that I allowed myself an hour and 45 minutes instead of an hour and 15, as I usually do and it took me one hour and 50 minutes, so I can't blame it on Toronto.

THE CHAIRMAN: Would you like to start off?

MR. HILTON: First of all, allow me to say that I am glad to appear before you on behalf of The Steel Company of Canada, Limited, and that I hope the brief we have submitted and what I am about to say may be helpful to you in your difficult but very important task.

STELCO, as our company is commonly known, was formed in 1910 by the amalgamation of one steel-producing company and four steel-consuming companies. It is now an integrated steel producer with operations extending from the mining of iron ore and coal and quarrying of limestone to the manufacturing of a variety of rolled steel products, wire, wire products, bolts, nuts and etcetera. The only major hot-rolled sections not produced by us are steel rails and structural shapes.

Our ingot production in 1955 was 2,060,000





tons, an all-time high for our company, with wages, plus the cost of employee benefits, amounting to about \$60 million for the year. Our employees number approximately 13,500. All basic steel production by the Company is concentrated at Hamilton Works in order to obtain, as far as possible, the economies inherent in a large output. Using the steel produced at Hamilton Works, finishing operations such as wire drawing, nail making, bolt making, etcetera, are carried on at eight other separate plants located in Brantford, Hamilton, Toronto, Gananoque and Montreal.

At the end of 1954, total expenditures on physical assets had amounted to \$212 million, of which \$100 million had been spent in the six years 1949 to 1954 inclusive, during which time ingot capacity was increased from 1,108,000 tons a year to over 2,060,000 tons, or nearly doubled. It will be seen that the sum spent in the past six years is almost as much as that spent during the company's previous 38-year history. On top of this, we have just announced a programme which will involve an expenditure of a further \$70 million for expansion, to be spent largely in 1956 and 1957. I have no hesitation, therefore, in stating that we have not been cowards when it comes to spending our money in endeavouring to keep pace with Canada's growing needs for steel.

A few words concerning the Canadian Steel Industry's market and competitive position will probably be appropriate. The steel industry cannot generate business directly although it can, and does,



help to promote consumption by constantly improving quality, developing steels with special properties to meet new needs, and by reasonable pricing. We depend, for our production, upon the many secondary industries which sell fabricated or manufactured products containing iron and steel to their customers. Their market is limited to about 16 million people, living principally on a thin strip of land extending from the Atlantic to the Pacific. Obviously, it is impossible under such circumstances for them to utilize the mass production methods and resultant cost savings available to United States' producers. Electric refrigerators are a typical product with an important steel content. Sales of electric refrigerators in the United States last year totalled about 3,700,000 units compared with sales of about 265,000 Canadian-made refrigerators. One United States' factory alone turned out 650,000, almost two and one-half times the total sales from Canadian factories which are divided among several producers. Not very long ago, when there was an excess production of refrigerators in the United States, our producers were subjected to very severe competition from American imports. This example of the difficulties of just one type of customer can be multiplied many times.

Naturally the markets available to our customers are reflected in our business. Whereas the mass United States' markets make possible the operation of high-capacity, single-purpose rolling mills on long runs of the same section and size, we, in Canada,





in order to look after our customers, must carry on what might almost be described as a small-order, corner-store type of business in comparison. In other words, whereas in the United States mills can run for hours or even days on the same order, we must shut down frequently to change guides or rolls, or both, in order to turn out the numerous small orders for differing sections or sizes required by our trade. While these changes are being made, our equipment and crews are of course non-productive with a consequent impact upon our costs.

Canada has also been historically a happy hunting ground for overseas steel producers when they need business. In our industry, we commence with iron ore, coal and limestone in the ground. We recover them, transport them hundreds of miles to assemble them, make coke with which the iron ore is smelted to pig iron, refine the pig iron to steel, roll it into various forms and then, in some cases, draw it into wire and manufacture further finished wire products. Recognizing the fact that cumulative wages from raw materials to finished product are by far the largest component in the cost of the ultimate product, it is perfectly clear that a competitor paying about one-third of our wage scale, which is roughly the case in Britain and Europe, enjoys a great cost advantage. This enables such competitors, under the conditions which prevailed in the world steel trade in 1954, to deliver steel in Canada below our cost of production. As a result, some steel buyers



took advantage of the temporary savings which were available but, when world market conditions changed, the overseas sellers raised their prices above our domestic levels and, in many cases, withdrew partially or entirely from the Canadian market. The domestic industry was then expected to pick up the load!

This situation is one of the fundamental reasons for the brief presented to the Customs Tariff Board recently by the Primary Canadian Steel Industry. We believe we are entitled to be safeguarded against such opportunists' in-and-out competition if we are to attempt to gear our industry to looking after our country's reasonable requirements for steel. It is a matter of record that the Canadian Steel Industry has not taken advantage of the existing customs tariff to exact high prices during periods of shortage such as prevail at the present time. The prices charged by Canadian steel mills are, aside from a few special instances, much below delivered costs from United States' mills. In short, there is not the slightest intent to use customs duties as a lever to exact higher prices than those fully justified by Canadian conditions.

Furthermore, the steel section of the Canadian Customs Tariff was framed in 1907 to suit the conditions of that day and we believe it should be revised to conform with those of the present time. As an example of its obsolescence, while of course I do not claim this particular example to be of any serious importance, Item 386(i) still provides for duty-free importation of steel strip for the manufacture of





corset stays.

THE CHAIRMAN: Are they bringing it in for that purpose these days?

MR. HILTON: No, but it just shows you how ancient the tariff is.

There are many other special items, however, which are important.

Among other questions no doubt, there seem to be three regarding the Canadian steel industry which are in the public mind just now, judging from the press and other statements -- on which I will comment briefly, as follows:

(1) Why cannot all forms of steel be produced in Canada, particularly heavy structural sections?

As already stated, we have, as yet, a very limited market. A mill to produce the so-called "wide flange" structural shapes in the full range of sizes would cost today over \$70 million, and I emphasize that this sum covers only the mill and auxiliaries for the final rolling operation. In the United States there are five such mills, with a total annual capacity of about 3,300,000 tons, or about  $3\frac{1}{2}$  percent of total rolling mill capacity. This percentage applied to Canadian consumption of rolled steel products would indicate a need here for about 125,000 tons a year, which is probably on the high side as, during recent years, total imports of all structurals, including ordinary as well as wide-flange sections, have been approximately 170,000 tons annually. Since the capacity of an efficient wide-flange mill is 500,000





tons a year or more, the tremendous investment required for such a mill in Canada would lie idle most of the time for many years to come and the cost of the product would be prohibitive. Incidentally, the same situation prevails with respect to other steel products, although to a lesser degree.

(2) Why is the Canadian Steel industry in Ontario dependent upon United States' iron ore instead of Canadian iron ore?

Speaking for Stelco, we and our predecessors have been using iron ore for the production of pig iron and steel for about 60 years. Until quite recently, the Lake Superior District in the United States was the only available source of supply. It is also pertinent to emphasize that the present status of our Ontario steel mills would have been impossible without the iron ore which has come from the United States. In order to protect our growing investment in steel plant facilities, over a period of many years we have formed connections with United States' consumers of iron ore and thereby have assured supplies of this essential raw material. At the same time, by pooling our requirements with those of other consumers, we have been able to obtain the advantage of much larger mine operations than we alone could have supported, with the lower costs resulting reflected in our prices.

At the present time, Bristol Mines, in which we own a half-interest, is commencing to open up an iron ore mine in Pontiac County, Quebec, at an estimated cost of \$13 million. Shipments from this



property are expected to begin in 1937. This development was made possible by experience gained through an interest in a similar but much larger taconite operation in Minnesota.

For some years we have been actively investigating possible commercial iron ore deposits within reasonable distances from Hamilton, and we will continue to do so. I believe there is good reason to expect that our consumption of Canadian ore will steadily increase as time goes on.

Insofar as the national balance of trade is concerned, Canada is now exporting more iron ore to the United States than she is importing and this favourable balance should improve rapidly in the near future.

(3) Why have other integrated steel plants not been established at various points in Canada?

The answer to this seems fairly obvious.

There is plenty of evidence in recent years that where there has been a reasonable hope of profit from investing capital in new enterprises in Canada, the necessary money has been forthcoming. However, up until now at least, no one has cared to assume the risks involved in the very large investment required for a new integrated steel plant. Undoubtedly when it appears likely that there will be the necessary steel consumption in a given area, coupled with suitable and economical sources of raw material, there will be new plants.

The primary purpose of this Commission is to endeavour to appraise the future. In the belief that this can only be done against a background of past





and present conditions, I have attempted to sketch briefly the history of our company and to explain certain questions concerning it and our industry which are apparently in the public mind.

As for the future, I have no doubts over the long pull. I do, however, have grave doubts as to the reliability of any specific predictions with respect to 1980 or any other definite year, based upon the projections commonly used as indicators. They are, I realize, the only formulae available for such estimates, and they have been used as a basis for the predictions contained in the brief presented to you by our company. However, there could easily be errors arising from their use, as follows:

(1) If such projections are based upon too short a period, for example, the post war years, the result may be entirely too optimistic due to the effect of shortages following the war, reconstruction needs and other conditions peculiar to the period.

(2) On the other hand, if based on a longer period, say back to 1926, the effect of increased population and more recent social and technological advances will be partially submerged by the earlier years and the result may be too pessimistic.

(3) In the steel and other industries, the effect of modern equipment, as efficient as any in North America, which has been installed abroad since the war, and which will have an impact on world trade, is not yet fully apparent.

(4) Mass psychology or thinking, which has



such an important effect on the course of business, cannot be calculated mathematically or charted accurately for the future.

(5) Government policies, particularly those affecting immigration and taxation, cannot be predicted very far into the future.

(6) With scientific developments moving at the present rapid pace, what may be possible, or even commonplace, ten years hence is impossible to predict.

Subject to all the foregoing weaknesses of ordinarily accepted methods of projecting the past into the future, we have, in our brief, ventured to predict for 1980:

Canadian Population	26,000,000
Canadian per capita steel consumption	1,097 pounds
Canadian per capita steel production	910 pounds
Canadian steel production in percent of Canadian Steel consumption	83 percent
Canadian steel production in ingot tons	11,830,000
Capital cost per ton of added Canadian ingot capacity, in 1955 dollars	\$250 to \$300
Total added capital cost to the Canadian steel industry for the estimated increased capacity required, not including replacement of any present plant as may be required by obsolescence or wear and tear	\$2,900,000,000
Probable Stelco added investment required, not including replacement of any present plant	\$1,180,500,000





Why they put that \$500,000 on the end of that figure, I don't know.

The basis for all these "guesses", for that is what they are, is our growth in population. They are based not only on the expectation of more consumers but also on the presumption that, as we have more potential customers in Canada, more secondary manufacturing will become economically possible and that then we will be able to employ mass production methods to an increasing degree, accompanied by a corresponding increase in the domestic market for steel.

Next in importance, but only to a slight degree, is the necessity for adequate profits and reasonable future government tax policies with respect to such profits.

Regarding the former, since the end of the war, it has become almost axiomatic to pass on cost increases in higher prices. Such increased costs have been largely the direct and indirect effect of increases in wages which have been in excess of the increase in man-hour productivity in spite of very large expenditures to provide improved and more efficient means and methods of production. Frankly, I don't know how much longer this can go on but I suspect we are near the end of that road unless we are to resign ourselves to a continuous increase in inflation with consequent devaluation of our currency. In that event, the difficulties of financing expansion will be compounded. With all due respect to those in





the organized labour movement, I suggest that stable or lower prices, reflecting the results of technological improvements can benefit our workers in their role of consumers, and the country as a whole, more than demanding and getting an ever-increasing number of dollars, each worth less and less as inflation increases. At the same time, it would also be well to remember that we live in Canada, subject to its own economic conditions, and not in the United States.

Regarding taxation, governments at all levels in 1954 collected in taxes 23.5 percent of the gross national product, which is comparable with the peak reached during World War II. Can we afford to divert such a large proportion of the proceeds from the nation's industry in peaceful times to governments and, at the same time, save the tremendous sums required for our country's growth and development? Only time will tell, but the combination of very high taxes and extremely high capital investment needs predicted for the coming years may well prove to be more than our economy can manage.

In conclusion, if the bright future we anticipate for our country is to be achieved, the following conditions will be of great assistance, if not essential:

- (1) A continuous growth in population, approximating at least recent rates.
- (2) Suitable safeguards to Canadian industry against imports arising out of distress markets in other countries.
- (3) Profits adequate to attract new investment capital as well as provide part of the money required



for replacements and expansion from corporate savings.

(4) Increased recognition on the part of the Canadian Labour Movement of their responsibilities as related to the Canadian Economy and its future.

(5) Recognition by Governments that they are now taking almost a quarter of our gross national product which seriously reduces potential private and corporate savings available for investment and that any reductions which may be possible would stimulate investment, while increases, commencing at the present high level, would have a very detrimental effect upon future amounts of risk capital available.

Thank you.

THE CHAIRMAN: Thank you, Mr. Hilton.

Thank you also for the brief which you sent in to us some time ago and which we all read with interest.

I suppose in your company one of the complicating factors from a production standpoint is the multiplicity of different things that you make?

MR. HILTON: Well, I would not say that is a handicap. The early growth and success of our company resulted from wrapping up a lot of odds and ends into one decent sized aggregate which enabled us to have a large iron and steel organization.

THE CHAIRMAN: You have not got the volume at the beginning of the process. If you didn't have the volume of end products you would not have the volume of early products?

MR. HILTON: Correct. Going back to the early history the consumers that came into our





company were largely wire and wire products companies who all got their products from the United States then but they amalgamated with the old Hamilton Iron and Steel Company to form the Steel Company of Canada and that company put in a small rolling mill and rod mill and the consumers then drew their wire rod supplies from Hamilton.

THE CHAIRMAN: Do any of the steel companies in the United States produce such a diversified range of products as your company does?

MR. HILTON: I think probably the United States Steel Corporation and Bethlehem certainly do and Republic.

MR. GRAUER: Regarding the by-products mentioned on page 5, are they an important element in your revenue picture?

MR. HILTON: Did you say "by-products"?

MR. GRAUER: Yes, you refer on page 5 of the main brief to:

"Coal chemicals are recovered from the gases released during the coking operation. From such chemicals are made plastics, medicines, insecticides, paints, dyes, nylon and many other familiar products. Ammonium sulphate for fertilizers, and light oils which contain benzol, xylol and poleul also are recovered".

It was with regard to those products I was referring.

MR. HILTON: Well, our sales of those by-products are around several millions of dollars a



year.

MR. GRAUER: It is quite an important factor?

MR. HILTON: Yes, sir.

MR. GRAUER: Is it also a growing part of your revenue or is it stabilized at about the same proportion?

MR. HILTON: Well, the demand for some products is in excess of the North American capacity and the reverse is true of others. There is also a lot of European products moving into that field.

MR. GRAUER: Your capacity is subject to change from time to time?

MR. HILTON: That is right.

MR. GRAUER: In your steel operation, what is the approximate break-even point from a point of view of percentage capacity?

MR. HILTON: That is quite a question. I don't think I am competent to answer that off hand. As you can see, there are certain fixed periods and beyond that your breaking points are just what you get for reduced expenses.

MR. GRAUER: There are liable to be some changes there and I suppose it involves too many assumptions to put anything regarding it into the record. Reference has been made to efficiency of plant in the United Kingdom and Europe. Is it a correct deduction that the Canadian plant from the point of view of its modernness or lack of obsolescence is in just as good shape as the plants of other





countries or what is our situation there?

MR. HILTON: Well, I can only speak for our own company in that regard. Here is as open an argument as anything, I suppose, but at the same time there is one plant in South Wales which is just as good as ours is. I had in mind particularly the wide strip mills that have been built in Europe since the war. There are several of them there. The one in South Wales in England is one, another in Holland, a couple in France, a couple in Germany and those installations will turn out just as good material as we do and just as efficiently.

MR. GRAUER: Is there much obsolescence in the Canadian steel industry yet?

MR. HILTON: Well, again speaking for ourselves, yes, we have some old equipment but it is still doing a job and if we tore it out and put something new in it would probably have more capacity than we need right now. It is a matter of timing all these things so they will meet the increasing conditions.

MR. GRAUER: The price increases that have taken place so far, has there been any effect upon the consumption? Has consumption been retarded at all? It doesn't seem so when you look at the large demand picture.

MR. HILTON: What price increase are you referring to? The last price increase we made was last August.

MR. GRAUER: You have not noticed any





effect since then, have you?

MR. HILTON: People don't care what it costs; they want it.

MR. GRAUER: Regarding the price, is there any reason to think that that situation will change?

MR. HILTON: Certainly it will change.

In 1954 we were beating the bushes looking for business and running about 80 percent of capacity or rather about 70 percent of capacity. The Europeans were underselling us.

MR. GRAUER: "Regarding the former, since the end of the war it has become almost axiomatic to pass on cost increases in higher prices", I take it you are perfectly confident that the forces of competition are sufficiently strong in the steel industry to ensure that the savings would be passed along to the consumer?

MR. HILTON: I think that is a fair statement, sir, yes, and I think the government is enlightened enough so that it does not want to gouge anybody. As I say, we could get far higher prices today than we are charging if we were in the mood to do it.

MR. GRAUER: My introductory question as to the projection that you used saying this very great increase in tonnage output during the next 25 years was on the assumption, or was assumed, that you would receive the same degree of tariff protection then as now.



MR. HILTON: Well, we assume we are going to be able to stay in business and keep on growing. I can't say what the tariff situation may be in the next 10 or 15 years or more.

MR. GRAUER: Well, the problem seems to be, I gather, that you are largely worried as an industry about these periods when prices are undercut by steel coming in from Europe?

MR. HILTON: Well, just when we need it like a baby needs milk, that is when our friends turn to foreign supplies. They get foreign barbed wire at prices we do not want to give.

MR. GRAUER: So you feel that the steel industry is strong enough not to take advantage of the high tariff during that strong world time?

MR. HILTON: Yes.

THE CHAIRMAN: Are the imports you worry about from Britain and Western Europe particularly or importations from the United States?

MR. HILTON: No, mostly overseas.

THE CHAIRMAN: If the American market was open to you would you be able to sell in any area of the United States in competition with the American mills at Buffalo, for instance?

MR. HILTON: We might be able to but economically it is not sound to bring your raw material in and then send your products south again because the fellow south of you has the edge.

THE CHAIRMAN: You would not be able to for long?





MR. HILTON: No.

THE CHAIRMAN: Well, I apologize for asking this theoretical question because I don't suppose there is any chance in the world of that ever happening. But these theoretical questions are asked more often than you would think and I think it is a good thing to know what people's views are on those subjects.

MR. GUSHUE: When you refer to "suitable safeguards against imports" are you thinking there of higher safeguards than you have now?

MR. HILTON: Yes, sir.

MR. GUSHUE: That is the tenor, I take it, of your application to the Tariff Board?

MR. HILTON: Yes, sir, in respect of low protection. I think it might be interesting to you to know that the last available figures showed that the average ad valorem duty normally on all imports of rolled steel products into Canada was about 8 percent.

THE CHAIRMAN: Of course, a lot of it would be free, wouldn't it?

MR. HILTON: Yes, that averages the whole thing down. That is what I dislike about the mere statement that the United States -- about Canadian products going into the United States. Steel always ends up with a very low estimate. It is bread and butter that goes up.

THE CHAIRMAN: Well, we are talking about



steel.

MR. GUSHUE: I wonder if you would like to elaborate on the statement on page 13, recommendation (4):

"Increased recognition on the part of the Canadian Labour Movement of their responsibilities as related to the Canadian Economy and its future."

Does that mean you feel there is not sufficient sense of responsibility at the moment?

MR. HILTON: Well, we feel we just cannot go on raising wages in perpetuity -- 10, 15, 20 cents an hour every year without getting our whole price structures out of line because these chaps apparently won't admit that there is only one place to get wages and that is from your customers, whether they are direct wages or fringe benefits or whatever it is.

MR. GUSHUE: They are always the subject of negotiation, I suppose?

MR. HILTON: Yes.

MR. STEWART: How do you measure capacity in the industry? When you say the industry is operating at 100 percent capacity, what does that really mean?

MR. HILTON: Well, with respect to ingots our yardstick is the best year we have ever had with the equipment we have had. About a year ago we set our capacity at 1,250,000 tons so that is our highest capacity, we are all out.

MR. STEWART: If you were operating at 80 percent of capacity and 100 percent of capacity the



next year, what sort of effect would that have on your costs?

MR. HILTON: That would increase your costs of raw materials. Your fixed charges remain about the same, you have a smaller division.

MR. STEWART: If you were operating at 80 percent you could not give any indication of the degree of change in costs?

MR. HILTON: Well, I don't think it would be suitable for me to do so because my answer would involve a great many assumptions. I would not want to make a statement without defining just exactly what I am talking about.

MR. STEWART: Is it possible to make a close comparison of prices of particular products in the United States, Canada and say, in the United Kingdom?

MR. HILTON: Yes, very easily.

MR. STEWART: These data are available, are they?

MR. HILTON: Sure.

MR. STEWART: You can get the full range of prices in any country at any time?

MR. HILTON: I would not go so far as to say any country but they are published in Britain, in the United States, and by our producers. It is a common practice.

MR. STEWART: How frequently are they published?

MR. HILTON: Whenever they are changed





in our case.

MR. STEWART: You see, this is contrary to some evidence we have had.

MR. HILTON: So I read in the paper. In this day and age it is perfectly ridiculous to talk about a secret price list because they are all printed and every customer that does business has a list on his desk. Besides, there is section, I think, 498, or something like that.

THE CHAIRMAN: We would not know, Mr. Hilton. We hear things but we sometimes have them contradicted. This question of prices, though, is something we have heard a good deal about and I think for people who are not in the industry it is difficult to get prices in Canada the same way that you could get them in the United States. Is that not correct? They don't publish them in the same way that they do steel prices in Pittsburgh or Chicago?

MR. HILTON: United States steel industry is so large that as a result their prices are published in great detail in the magazine Steel or Iron Age. There is no counterpart here.

THE CHAIRMAN: This has a much wider application than your company but I would like to get your view on it. It has been suggested to us (as I say this does not apply particularly to the steel industry) it has been suggested to us that there is a lack of available statistical information in Canada because of the requirements of the Statistics Act and the fact that the Dominion Bureau of Statistics cannot publish



statistics information if because of the nature of the industry it will disclose figures applying to one company. Now, it has been suggested that because of the nature of industry in this country and the fact that in several industries there are one or two companies that are substantial, that that deprives the general public or the economists or various other people of information that would be very valuable to them. It has also been suggested to us that it would not be very damaging to the companies concerned if it were made public. Would you have any views on that, not in general terms, but as far as your own company is concerned?

MR. HILTON: Are there any statistics that Dominion Bureau of Statistics have published that we have never given to you? We have given them everything they have asked for.

A SPECTATOR: They put them, sir, in the form of tables of two or three industries. If it is a case of two or three or more industries, they will join two or three other branches so that they will have a table of, say, three instead of one single company or product.

THE CHAIRMAN: Would it be a damaging thing in a situation like that if they did obtain the whole particulars even if your company was one of the others was predominant in the field?

MR. HILTON: Well, I can only speak for our own company but if anybody in our business wants to know something about what we are doing,





they will find it out.

THE CHAIRMAN: That is what I was going to say. They can probably find out anyway. It is just the public generally that cannot find it as easily as your competitors can. I see Mr. Wright back there. I don't suppose there is very much that goes on at Defasco that you can't find out about?

MR. HILTON: Or the other way around.

THE CHAIRMAN: I am very much obliged to you. We had better take another two or three minutes off and open the window. After lunch we are going to meet at the Senate Chamber in Simcoe Hall at the University. We will be there the rest of the week.

--- Recess

--- After recess

THE CHAIRMAN: Well, shall we come to order? The next submission which we shall mark Exhibit 149 is to be presented by Mr. A. G. Wright, President of Dominion Foundries and Steel Limited.

It is very nice of you to come over this morning, Mr. Wright. I hope it was not too tough a drive.

MR. WRIGHT: An hour and a half. I thought I was going to be late.

THE CHAIRMAN: Would you proceed, Mr. Wright?

MR. WRIGHT: Let me say, Mr. Chairman, we have not prepared a brief as such.

In your letter of November 3rd, you ask certain specific questions regarding the economic future of the steel industry in Canada over the next



twenty-five years. We will endeavour to answer your questions to the best of our ability but in most cases, the answers cannot be specific.

Growth of Primary Iron & Steel Industry over next 25 years

There are at least five factors affecting the growth of the Steel Industry in Canada; first of which is population which now stands at about  $15\frac{1}{2}$  millions and which is, according to statisticians, expected to grow to 28 millions over the next 25 years. The second factor is the greater degree of self-sufficiency in steel production; and the third factor, the increased use of steel per capita by Canadians. These first three factors should indicate growth. On the other hand, there is the matter of substitutes for steel such as aluminum and plastic, and lastly importation of foreign steels.

Since 1939 Canada's steel capacity has been approximately doubled, and this increase has been very marked in the last few years. We do not anticipate that this rapid growth will be duplicated, but don't see any reason why (considering the factors above) Canada's steel production should not more than double again during the next 25 years.

Comparative Costs - Canada, United States and Great Britain.

We have no exact information on this subject. It is, we think, self-evident that by reason of the enormous capacity and production in the United States, their costs are bound to be lower, but how much lower, it is very difficult to calculate. Assuming in



both cases a fully integrated steel plant, there may not be too much difference in cost at the ingot stage depending, of course, on the location of the plants in question. The matter of location also affects the laid-down cost to the consumer. In the United States, there are steel plants in the East, the Mid-West, the West, the North and in the South, which reduces the factor of transportation costs on the finished product.

Beyond the ingot stage, the factor of mass production in the United States, results in a greater degree of specialization and much longer runs on one item, therefore, more economical production. We at Dofasco, are engaged in the manufacture of flat rolled steels and have one pair of hot mills on which we roll hot rolled strip, hot rolled sheets and steel plate of various widths and gauges involving frequent roll changes and changes for width and gauge whereas in the United States several different mills would be employed especially designed for the work that they are doing thereby increasing production and reducing costs. The above remarks are also applicable to our cold mills where the great variety of sizes and gauges does not permit the production per hour that can be obtained from the larger, higher speed, specialized mills in the United States.

In the manufacture of Electrolytic Tin Plate which is a continuous operation, we learned on a visit to one of the large American mills that we had to stop our line to change sizes five times as frequently as they did. This in itself, lowers production per hour





and consequently increases costs.

As far as Great Britain is concerned, again we believe without any exact knowledge, that at the ingot stage our costs might be competitive as they have to import large quantities of scrap and ore. On the other hand, the price of domestic scrap in Great Britain is controlled at a low level and all domestic scrap, whether purchased or shop scrap, is charged into their furnaces at uniform prices and they are not cursed with the violent fluctuations in the price of scrap which occur in this country, that is, as far as their domestic scrap is concerned. We believe their coal costs are high and their domestic ores very lean. Beyond the ingot stage where labour rates become a more important factor (and our labour rates are approximately three times those in Great Britain) their costs must be materially less than those in Canada.

There are, of course, other fields of competition such as Japanese and European Mills about whose costs we know very little.

If wage rates in the Canadian steel industry continue to increase as they have over the last few years, it would seem that the spread between British steel costs and Canadian steel costs would widen. As far as United States is concerned, as the steel industry in Canada grows, the cost of finished steel as between United States and Canada should come closer together.



### Increased Self-Sufficiency in Canadian Steel Manufacturing

As far as Canada making a larger share of her own steel requirements is concerned, this is one of the factors mentioned in the expected growth of the Canadian steel industry, and as the Canadian steel market widens, we would expect Canada to become more self-sufficient, but we believe it will be a long time yet before the Canadian market will warrant production of very special steels such as Wide Flange Beams, etcetera, and the importation of Structural Steel is the largest single item on the list of imports. Canada is now practically self-sufficient in the manufacture of steel plate and steel sheets excepting for peak loads such as we are now experiencing. Canadian mills are now producing practically all the Tin Plate and all the Galvanized Sheets required in Canada and we see no reason why in the future, Canada could not become self-sufficient in the manufacture of Electrical Sheets, most of which are now imported.

There is another field in which Canada could and has become more self-sufficient and that is in the manufacture of skelp for pipe lines and well casing.

### Cost of Expansion of Steel Capacity

The doubling of Canadian steel capacity in the next 25 years would require an additional five million ingot tons. Using the accepted figure for new integrated steel plants of \$300, per ingot ton, this would require an expenditure of \$1,500,000,000, that is on the so-called green field basis. A steel





plant constructed at this cost would not, in our opinion, at today's prices, yield a return on the investment adequate to attract the necessary capital. If this expansion took place in existing plants, the cost would be much less. It is also true that the capital cost of small plants without blast furnaces or coke ovens might be as low as one-third the cost of a completely new integrated steel plant.

#### Location of Future Expansion

The location of new steel plants, we believe, will depend upon markets and the availability of raw materials. We see no reason why some of this expansion should not take place on the shores of the St. Lawrence. As far as the West Coast is concerned, there are steel plants in the West now and as the market and population grow, there will, no doubt, be increased steel production on the West Coast but at what period in the future this area will be able to support a major steel operation and the matter of availability of raw materials, are questions we do not feel competent to answer. The steel production on the West Coast of the United States is presently about 5 million tons, but the population served is as great as the entire Dominion of Canada. As stated in the previous paragraph, we feel that increased steel capacities can be most economically provided by existing plants in existing locations.

#### The Effect of Expansion on the Labour Force Required

To answer the last question -- in our opinion, if the steel production in Canada is doubled



during the next 25 years, it will not necessarily mean that the labour force will also be doubled. The steel industry has spent millions of dollars to become more efficient and such technological advances have tended to reduce the labour content of a ton of steel, and there is no reason to believe that there will be no further advances along the same line. However, if the expansion takes place in the form of small units, the labour force required might conceivably be greater per ton of steel produced.

We hope we have made some small contribution to your study as it concerns the steel industry of Canada.

THE CHAIRMAN: Thank you, Mr. Wright. First of all, we will pick up where Mr. Hilton left off. Would you have any views or opinions about the information which the Dominion Bureau of Statistics is permitted under the Statistics Act to make available to the public?

MR. WRIGHT: I think, sir, that practically all the information is available with possibly one exception and that is the production of tin plate in Canada. The Steel Company of Canada and ourselves are the only producers. We serve the whole industry practically to the extent of 100 percent and as Mr. Hilton suggested I think the information we can't give is obtained by devious means and as stated the Dominion Bureau of Statistics usually don't publish statistics where only two producers are concerned for the reason that it gives each of them the exact information about





the other's production.

I think Mrs. Morgan could probably have obtained some more or less exact information on the subject in respect of the total production because the use of tin plate in the manufacture of containers and other things, I believe, is published by the Dominion Bureau of Statistics and that pretty well tells the story.

THE CHAIRMAN: Well, as you say, people perhaps if they are anxious enough to know, can get that kind of information by devious means, I believe you described it. Would not it save a lot of trouble if the Bureau were permitted to divulge that sort of information?

MR. WRIGHT: Well, there are two parties to the question.

THE CHAIRMAN: I gathered from Mr. Hilton he thought he had yours and I gather you have got his.

MR. WRIGHT: I expect their costs and our costs are reasonably close but not exact.

THE CHAIRMAN: In the matter of prices I am asking this again because it has been referred to so often. Do you feel that it is possible for people in Canada who are not directly interested in the steel industry either as producers or customers to get up-to-date and accurate information on steel prices in Canada which they could, if they wished to, compare with prices in the United States or United Kingdom?

MR. WRIGHT: Sir, there is no medium in Canada for the publication of such data. There are





produced free in the United States, the American National Market, a daily publication, the Iron Age and Steel Age which are weekly publications and that information is available but there is no medium in Canada in which to publish such information.

THE CHAIRMAN: Do you think it would serve any useful purpose for such information to be made public in Canada?

MR. WRIGHT: I can't see what purpose it would serve. All the users of steel are furnished with price lists which quote the base prices and extras and deductions for size, gauge and what have you. So the people who are vitally concerned are not in the dark.

THE CHAIRMAN: In your submission -- I am talking about the British industry -- you mention that the price of domestic scrap in Great Britain was controlled. Is there a price control on it?

MR. WRIGHT: Yes, that has been in existence for quite a long time.

THE CHAIRMAN: You think it is a good thing there, do you?

MR. WRIGHT: Well, it tends to lower production costs in Great Britain it is true, but they have to import large quantities of scrap and pay premium prices for it, but that of the domestic scrap originating in Great Britain, the price is controlled by the government on all materials at uniform prices.

THE CHAIRMAN: Do they control the price of finished output as well?

MR. WRIGHT: Well, they did but I believe



that has been relieved.

MR. GRAUER: On page 5 where you refer to the cost of a new steel plant, you then say:

"If this expansion took place in existing plants, the cost would be much less."

What is the capacity for expansion in existing plants?

MR. WRIGHT: Well, that is a question I cannot answer. You are talking about land area or what?

MR. GRAUER: Well, productive capacity. I don't know just off hand what you mean by that. Is it more or less indefinite, the capacity for expansion in existing plants?

MR. WRIGHT: Providing they have the land area and the means to build such plants. We personally are putting in another blast furnace. We have one and are going to have two, another oxygen steel vessel which will increase the capacity of that department by 50 percent but it has been pretty generally recognized, I believe, that expansion of existing facilities can be accomplished more economically than starting with a green field where you have to provide all the new services, office buildings and everything of that nature which do not have to be duplicated in existing plants.

MR. GRAUER: Assuming you had the land I suppose there would be some point which would be the optimum size, wouldn't there?

MR. WRIGHT: I expect so, yes.

MR. GRAUER: But that point has not been





reached by any means yet, I take it. What is the future of electric furnaces in the steel industry?

MR. WRIGHT: The electro melting furnace? The future of electric melting is tied up with the price of scrap for electric melting is about 100 percent scrap and the cost will fluctuate in direct relation to the market price of scrap. The price of scrap has gone up \$17 a ton since the beginning of 1955 and that entire increase would be added to the cost of steel made in electric furnaces.

MR. GRAUER: It is somewhat more precarious then, is it?

MR. WRIGHT: Yes. When scrap is cheap electric furnace production is also relatively cheaper and more economical.

MR. GRAUER: In places where scrap was the only available source of raw material it probably would be the logical type of process to use?

MR. WRIGHT: Yes, and they say if they have reasonable power costs in their location. It takes about 600 kilowatt hours to make one ton of ingot.

THE CHAIRMAN: On page 5, Mr. Wright, you are talking about the increase of self-sufficiency in steel making in this country:

"We see no reason why in the future,  
Canada could not become self-sufficient  
in the manufacture of Electrical Sheets ..."

Is that an important item?

MR. WRIGHT: Yes, it is quite an important item. It is used in the manufacture of rotating



equipment -- transformers, etcetera. There are many grades of it. The lower grades are manufactured and produced in Canada but I understand the high grades are practically all imported.

THE CHAIRMAN: Perhaps I should ask this tomorrow -- I think it is tomorrow -- when the automobile manufacturers are appearing but has there been any talk of when the time may come when the frames or body stampings or panel stampings may be produced here?

MR. WRIGHT: No. I think it will be a very considerable time in the future because the factor of mass production in that industry is very, very important. I am afraid it will be quite a little while.

THE CHAIRMAN: I suppose the problem is more a problem of the frame makers or the people who produce the stampings rather than the steel making industry, is that right?

MR. WRIGHT: Yes. That was where the mass production comes in. Some of those plants in the States particularly on frames are highly mechanized to a point where they have more people in their engineering department than they have in their shops.

THE CHAIRMAN: Your neighbours the National Steel Car suggested to us the other day it would be very nice if they got into the frame business some day.

MR. WRIGHT: I think they tried it once on trucks.

THE CHAIRMAN: They said that was 25 years ago



and times have changed.

MR. WRIGHT: I think that is quite right. I don't think they lasted very long.

THE CHAIRMAN: Well, Mr. Wright, we are most grateful to you and I would like to say to you and also to Mr. Hilton and Mr. Holbrook that we are grateful to the industry not only for your appearances here today but for helping Dr. Morgan to the extent that you have and to the extent that you will be, I am sure, helping her from now on in the preparation of this study which she is making for the Commission.

MR. WRIGHT: We will be only too glad to co-operate with Dr. Morgan and I won't guarantee specific answers but we will probably be helpful.

THE CHAIRMAN: Thank you very much. We will take another short recess and I would say again for the benefit of any who have come in recently that this afternoon we will be meeting in the Senate Chamber at the University of Toronto in Simcoe Hall.

-- Recess

-- After recess

THE CHAIRMAN: Shall we come to order, gentlemen? The final submission this morning is the Confectionery, Chocolate & Cocoa Industries of Canada. Mr. Hamblin is the President of the Association. Mr. Hamblin, we will mark your brief 150.

MR. HAMBLIN: Mr. Chairman and Gentlemen, we have presented a brief and I am wondering whether you wish me to read it to you or to give you some brief summary.





THE CHAIRMAN: I think a brief summary would do. You were good enough to send it to us well in advance and we all read it.

MR. HAMBLIN: Following the steel industry is something like a giant coming down to a pygmy but I would say at least our product is a little more highly digestible.

The Confectionery industry as a whole, and from the point of view of this Commission, has not perhaps received the full benefit of the country's economic progress and boom of the last five or ten years. You might be interested to know perhaps one or two of the reasons for that in general as we feel it. It is not because of any lack of initiative on the part of the members of the industry because there is plenty of competition but rather I think for two or three other reasons, two in particular.

There is one drastic one which I can just mention at the start and that is the fact that in the production of cocoa beans there has been in the last two years in the Gold Coast of West Africa a very bad blight which has affected millions of trees. On top of that there has been a poor crop resulting in more world shortage and consequent high prices, and, of course, less value to the consumer. That is something that nature and man are trying to take care of by eradicating the root of the trouble and there is some improvement now.

The two things that are our principal troubles are first of all, we have to contend with the



sales and excises taxes which some years ago during war time were imposed of 30 percent and 8 percent sales tax, making it 38 percent which has now come down in the intervening years to 10 percent and 10 percent, making 20 percent in all. But it has meant that we have had to secure higher prices and give perhaps less value than we would like to have done to the consumer and this we feel has had a retarding effect on consumer consumption.

I might also add that we are the only food industry that has to pay an excise tax and the only food industry who do have a sales tax.

The second thing, I think, is pointed out by the tremendous imbalance between the possibilities for export and the facilities for importing. This figure, I think, will clearly portray that. In 1954 we were only able to export the insignificant amount of 114,236 pounds and yet in that same year there came into Canada 21,388,000 pounds. I think that points to one of the real problems in the industry. There is a reason for this. We cannot export because we are faced with currency restrictions throughout the world and when we come to try the United States we find so many restrictive practices in connection with interpretation by customs. We have made a number of test shipments and we have found this to be true so that the market has been fairly well closed to us. We are not asking for any higher tariff as far as imports into Canada are concerned. If we had fair treatment, however, it would help a great deal.





In this respect Canada, in our industry, has become more or less of a sitting duck for other countries to take shots at because in the application of the sales and excise tax on importations it is only paid on the duty paid value whereas the domestic manufacturer has to pay his excise and sales taxes on his completed sales price to the trade in Canada so you can see he is paying a much higher rate than the importer.

THE CHAIRMAN: Well, sales and excise taxes on all products usually is applied to the duty paid value, is it not?

MR. HAMBLIN: That is correct, I think so. But it is that method of application which we presented to the Sales and Excise Tax Commission recently, pointing out that it works to the greater benefit of the importer and certainly in the confectionery business particularly.

The results of this have been that since 1951 this experience, this matter of importation, has increased from 13 million up to 21 million I mentioned; in other words, it has gone up 50 percent since that time but at the same time the export markets have been really practically closed to us.

In the United States the confectionery people consider, according to a statement by their president, that if their imports go up as much as 5 percent of their total production it is serious. In Canada it has already reached the figure of 11.36 percent of our production. Associated with this, of course,



has also been the problem of sterling devaluation which has given great advantage to the British and the importer. So the final result of that in per capita consumption is the British people consume 29 pounds per capita per year, the United States 17 pounds per capita and Canada 14 pounds per capita. We feel this is largely because we are not able to give the value that we should to the consumer due to the present imposition of the sales and excise taxes and we also have the added problem of not being able to complete on an equitable basis.

I would say that our industry is well equipped both with machinery and in labour scales to take care of the Canadian consumer's requirements.

THE CHAIRMAN: Thank you very much,  
Mr. Hamblin.

MR. STEWART: Mr. Hamblin, what is the nature of the businesses which produce confectionery? Are they highly specialized or is this easily combined with other kinds of production?

MR. HAMBLIN: Well, in Canada there are two or three major products. The bar business, of course, is large. It is fairly highly specialized. I think Mr. Saunders will bear me out in that.

MR. SAUNDERS: And the largest in volume would be the sugar industry who make any kind of sugar goods with no chocolate and they are just bagged by weight. If I may make an observation, Mr. Chairman, you raised a point about the fact that the method of assessing taxes on the duty paid price is general.





That is perfectly true and we have always recognized that but our officials in Ottawa have also recognized the fact that in the case of our industry it appears adverse to us because I think you will appreciate that when chocolate is imported into this country there is no freight included and there is no advertising, there is no selling expense and all that appears in the price on which we pay sales and excise taxes, not in the case of imported goods.

THE CHAIRMAN: Isn't that true in the other industries, though?

MR. SAUNDERS: Well, I think it is not true in the case of industries such as ours on specialized goods that are prepared all ready for the public. I don't think it is. In some cases -- and there are cases where we know and we accept that it is. In fact in a general way we have to admit that it is equitable generally but our industry is hurt by it. We have been able to prove -----

THE CHAIRMAN: I don't want to compare a candy bar with an automobile, but an automobile is essentially ready for sale to the public and it must pay its sales and excise taxes on the automobile price just the same as your complete price.

MR. SAUNDERS: Yes.

THE CHAIRMAN: And if the automobile is imported taxes would be levied on the duty paid value. I don't see where the distinction is.

MR. SAUNDERS: Well, the actual amount of duty would have some bearing on that, wouldn't it?





THE CHAIRMAN: How do you mean? I don't follow that.

MR. SAUNDERS: Well, the actual amount of duty imposed. If the duty is higher in ratio in the case of the automobile than it is in the case of confectionery they can take care of the situation. Might it not mean that?

THE CHAIRMAN: I thought you were complaining about a principle, not a rate.

MR. SAUNDERS: We can't take exception to the principle because we understand it is generally equitable.

THE CHAIRMAN: What you are complaining about is that you should have to pay an excise tax.

MR. SAUNDERS: Let me give you a specific instance. We have manufacturers in this country who have principals overseas and they can bring in a one pound box of chocolates and they pay five cents per one pound box in taxes for what we pay on the domestic product produced in Canada. That is what I am saying. Our distributors in business who have firms overseas have been able to do that and you will see in certain classes of goods they don't make them here because they can import them cheaper.

THE CHAIRMAN: Well, that is true with certain kinds of automobiles too. It is true with Cadillacs.

MR. HAMBLIN: I think part of the answer to that is the fact that where you have the complete manufacturing process from the raw material right up



in this country it is more advantageous to the industry. Our complete manufacturing process is done here. Now, in some industries parts are brought in which makes a little difference but our whole complete manufacturing process, you might say, is done in Canada right from the cocoa bean up to the finished product.

MR. SAUNDERS: We have documentary evidence in the case of chocolate bars. There are chocolate bars made in this country identical with those in the United States on a royalty basis and yet they can be brought in from the United States and pay less tax than that same article pays in this country when manufactured here; in other words, where we pay the tax on the selling price they only pay the tax on the duty paid price and there is a difference in favour of the importer. We have documentary proof of it and the government has accepted it as far as it goes.

THE CHAIRMAN: I am clear on it now.

MR. GUSHUE: What is the size of the industry in terms of employment?

MR. HAMBLIN: Our last figure was 8,200, I believe -- between 8,000 and 9,000.

MR. SAUNDERS: Yes, about 8,200 or 8,300.

MR. GRAUER: Is the confectionery industry taxed more heavily in Canada than in other countries you compete with?

MR. HAMBLIN: Well, there is no sales and excise taxes either in the United States or in Great Britain on confectionery.





MR. SAUNDERS: There is a very small tax in some places, in some of the states, a very minute thing where they just assess a small tax in some of the states. As a matter of fact, we feel that this is one of the things that this industry has to bear because during the war years Great Britain realized that this was a very important subsidiary food and they put it under rationing. In this country we put a 30 percent tax on it as well as an 8 percent sales tax. Nobody else in the world gets anything like it with the exception of Sweden towards the end of the war and I am not sure that Sweden taxed it extremely highly, and I think for revenue purposes, but we feel that being the only food industry subject to this tax is not quite fair. Of course, we have stated our case and I might as well say we have sort of dragged it into this, Mr. Chairman, but we have already put our case to the Sales and Excise Tax Committee.

THE CHAIRMAN: We recognize a drag when we see one.

MR. SAUNDERS: But it is a vital thing to our prosperity and our future development.

MR. STEWART: What is the difference between the British amount of 29 pounds and our consumption of 14 pounds? What sort of thing do they consume more of?

MR. HAMBLIN: Well, they make a particular range of confectionery the same as we do but they have chocolate bars, packaged chocolates and



sugar confectionery.

MR. STEWART: Right across the board?

MR. HAMBLIN: Yes.

MR. SAUNDERS: I would say they vary.

THE CHAIRMAN: Well, thank you, gentlemen, very much. We will adjourn until 2.30.

(At 1:00 P.M. The Commission adjourned to 2:30 P.M.)

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(Page 5496 follows)



A F T E R N O O N                      S E S S I O N

The sittings of the Commission were resumed at 2:30 P.M. in the Senate Chamber, Simcoe Hall, University of Toronto.

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APPEARANCES:

Mr. James S. Duncan, Chairman and President, Massey-Harris-Ferguson Ltd.  
Mr. Walter Latharan, Vice-President.

Mr. R. B. Bradley, President, International Harvester Company of Canada Limited.

Mr. W. B. Gay, Vice-President and Comptroller.

Mr. T. A. Rice, Vice-President, Manufacturing.

Mr. A. L. Elliott, Vice-President, Consumer Relations.

Mr. N. R. Crawford, President, Dow Chemical Company of Canada Ltd.

Mr. L. D. Smithers, Vice-President.

Mr. W. Wood, Counsel.

Mr. John Smart, Research Development and Assistant to Works Manager.

Mr. W.M.V. Ash, President, Shell Oil Company of Canada.

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THE CHAIRMAN: I think if we come to order the first item on the agenda this afternoon is a submission by Mr. Duncan on behalf of the Massey-Harris-Ferguson Limited. We will mark his exhibit 151, and then as Mr. Duncan is a member of the Board of Governors of the University of Toronto, I think it is appropriate for me to say how grateful we are to be allowed to hold these hearings in the Senate Chamber. We started off in the Legislative Council Chamber at the Parliament Buildings which was very





impressive for those of us who never expected to make it but we got demoted this morning to a rather crummy little Committee Room and we are very glad to get out of that and to be here.

MR. DUNCAN: I think with your permission I am going to go over this brief very briefly and perhaps outline certain comments as we go through. I hope that it may answer some of the questions in your minds.

Before starting on the developments in the agricultural implement industry I think I should say something about the development of the industry. Our industry is 108 or 130 years old depending on whether it was in the United States, United Kingdom or in Canada, but throughout generations there was very little change in agricultural implements. There was very little change in the methods that were used but from 1850 -- 1840 -- around there, some modern types of equipment were introduced, labour saving equipment and that was the very beginning and inception of the farm implement industry as a whole and that took place not only in the United States, it took place in the United Kingdom and took place in Canada as well. As soon as these modern labour saving devices were introduced they took on like wildfire, not only in the home countries for the domestic market but began to flood into the other countries of the world. I stress that because we in Canada were also pioneers of these farm implements, of the founding of the industry and as early as 1876, the Massey Manufacturing Company



claimed that between 8 percent and 10 percent of its volume came from overseas. It came from Europe and found its way in the export field to Germany and other countries. It increased by leaps and bounds so that by 1913, 59 percent of the total production of the company in Canada was export, so it will be seen that the Canadian farm implement industry while playing its important role in the domestic market and helping open up our western provinces and helping in the opening up of our whole economy also benefitted immeasurably from the growing world experience from the keen competition which it encountered abroad, both from European and United States manufacturers and from the greater volume which these expanded interests brought to it. I would say the second most important influence in the agricultural implement advance in Canada sprung from our needs from the United States. It varied -- up as high as 40 percent, down to  $7\frac{1}{2}$  percent and up to 25 percent under the Bennett regime and finally went down very drastically. But duties on implements were also quite high at one time and were removed actually in 1913. In Canada there was no duty on tractors which was our big import from the United States. Ever since the early days of their introduction the duties were lifted by varying degrees but they got down in the years prior to 1944 to approximately  $7\frac{1}{2}$  percent which was a very small protection and then in 1944 that protection was taken away from us and in general there is complete free entry of farm machinery on both sides of the line at the moment.





When tariffs were still in existence in Canada the United States companies established manufacturing facilities in Canada, the objective of which was to facilitate the supplying of our market in Canada but it was also at a later date to benefit from our preferential tariff arrangement, a facility for shipping to what we now call the sterling area, the Colonies and Dominions in those days. Whether they would have done it had there been no protection at that time I think is a matter of conjecture. There will be others whom you will be hearing later on who can illustrate that interpretation, but my interpretation is they would have done so anyway but probably a lot later than they did. On the other hand, had the Canadian market been a highly protected one, there is not any doubt in my mind that the manufacture of tractors would have been undertaken on a much larger scale than it was and probably would be much better established than it is now. The manufacture of tractors was undertaken in 1919. It was then abandoned and then recommenced in 1947 in a fairly small way and largely slanted towards exports so it has not become a very large factor. The biggest year we have had in Canada -- and I don't know the rest of the figures but only our company -- there is now only two companies manufacturing tractors in Canada -- tractors therefore would have been in the neighbourhood of 115,000 since our brief says the total in these years is 45 to 50 thousand. At the present time that has decreased very rapidly because a lot of these tractors were built



for the export market which has disappeared on account of currency.

It would appear reasonable, I think, to suppose that the United States would not have continued to permit the free entry of Canadian farm machinery if Canada had imposed a high tariff against United States manufacturers. I think that is a foregone conclusion. Whether we could have stayed at our  $7\frac{1}{2}$  percent and had no tariff against us in the United States is open to question. It is a debatable conjecture what might have taken place at the time. As I say, both tariffs were taken off.

Now, for those who had the experience, the productive capacity and particularly the financial means, free access to the important United States market was a factor of great importance which compensated greatly for the loss of international business in Canada.

Our company, to give you an example, for instance, ships at the present time in the last few years approximately three times more goods to the United States than we import from the United States. Now, that is not the history of the industry as a whole. The industry as a whole, I believe, would ship approximately one-third to the United States, importing in other words, three times more from the United States to Canada than they ship to the United States but our position has been reversed.

It should be pointed out here, however, that the United States organizations, the farm implement industry is so strong, so highly developed, their costs





are low on account of this big volume, this tremendous market, they are solidly entrenched commercially and therefore these facts do not make it easy for the farm implement industry to penetrate that market. As a matter of fact, probably nobody was able to do it except one company and therefore it was not an easy situation. The removal of tariff did not allow a flood of farm machinery to go into the United States and I would go so far as to state that I assume the United States was convinced they were not vulnerable or had they been vulnerable that tariff would not have been removed in 1913 but they were sure, and in fact correct, that they were in a position where they could meet all competition from the world and that they felt they could do so without tariff protection.

I would like to point out because I think this question of tariff is misunderstood, that even the larger and stronger members of the Canadian industry would have found it very difficult to go in and compete successfully in the United States market had they not themselves gone over and established themselves in the North American market by purchasing manufacturing outfits and also by purchasing with them the distributing organization in the United States and therefore they got a strong base in the United States and then when they added to that the imports from Canada, this put them in a position where they could reasonably compete with that strong United States industry. That, as I say, is something which has happened not generally in Canada. It does not apply to the smaller manufacturers. In fact,





generally speaking, it only applies to one manufacturer.

On the other hand, I think we must all admit that this free access to our market of United States goods in the farm implement industry has been of some considerable advantage to our industry. Now, the absence of tariff has no doubt had a restrictive influence on Canada's share of her own home market. At the same time it has enabled the Canadian industry as a whole, or at least it has been in the nature of the Canadian industry as a whole, to strive towards performance equal to that of the bigger manufacturer in the United States and therefore to be very competitive not only in the Canadian market but, what is more important, competitive in the world market with the United States; in other words, the mere fact that they were subject to that type of competition stepped up the quality of the whole industry in Canada.

There is another compensating factor which you will probably hear further of this afternoon and that is along this line, that the inevitable effect of the free entry of goods from the United States as against Canadian production for domestic markets, has found compensating factors in the policies pursued by certain United States companies -- and there are two of them -- who have increased their facilities here in Canada in order to supply certain machines to the United States market. That would not have happened had there been tariff both ways.

And I would say, at least one could say, that this free entry of goods has given Canadian



manufacturers, at least an opportunity of developing sales in the biggest of all farm implement markets which is the United States and that those who have been successful in doing so have achieved a volume of production that is the prerequisite of successful competition with the United States industry both at home and abroad.

Just to give you another example, in our organization in 1939 we were shipping approximately 5 per cent of our Canadian production to the United States. In 1955 we are shipping 60 percent of our Canadian production to the United States. That shows that if once you can crack the nut, there are great advantages in having that free entry to the United States. So I hope I am not taking too much time ----

THE CHAIRMAN: No, it is very interesting.

MR. DUNCAN: We have been discussing what might or might not have developed if tariffs had not been what they were. That was largely conjecture, but the fact is how this whole situation on both sides of the border is gradually adjusting itself to the fact that there is no tariff and I would maintain that so long as we in Canada can maintain the advantages of our labour rates which are slightly more favourable here than they are in the United States and certain other advantages which accrue to us so far as I am concerned in our own industry, speaking for myself, I favour the continuance of free trade between both countries. It is working out as I have shown you by the figures, greatly to our advantage.

Having said that, I realize there are a





lot of special conditions which I hope I have enumerated here in the case of our own company which do not necessarily apply to industry as a whole and therefore I am holding no brief for free exchange of products for industry other than ourselves.

That covers the tariff situation. It was suggested to me that I might deal a little bit with the sort of considerations that were given to location, where things should be manufactured. I will put it this way, that in the absence of tariffs between Canada and the United States as in the implement companies having manufacturing facilities in both countries -- I have got to insist on that, it doesn't apply to those that have not -- those having manufacturing facilities in both countries who approach their manufacturing problems on the basis of serving the North American market as a whole and not the domestic markets of each country, in other words, firms having plants in both the United States and Canada operate them for the manufacture of specific machines and in the volumes required to supply the North American market as a whole as well as to supply the needs of such portions of the export market as can still purchase from the dollar areas and that is a diminishing quantity.

In few cases, if any, do these manufacturers build the same machines both in Canada and the United States. In some of the plants, these companies have specialized facilities to produce components that are shipped to other plants on both sides of the border. An example of that is in our own company. We have a



modern mechanized foundry in Bradford, Ontario and we supply components both for ourselves and our United States factory in that plant.

It will be recognized in this respect that not only implements and their parts but raw materials and components entering into their manufacture and machine tools and toolage used for the purpose of manufacturing these, enter Canada free of duty. On the other hand, raw materials, machine tools and toolage pay duty upon entering the United States from Canada but I don't think the American manufacturers look upon that as a handicap on account of the great availability of these things they require and the reasonable price in the American market. If the reverse were true it would be a tremendous handicap to Canada.

It falls from these free trade conditions that the natural tendency of the industry as a whole is to develop its manufacturing operations by way of new plants, or additions to existing ones at any location in either country which appears to offer the most favourable costs, after having carefully weighed factors of labour rates, freight, taxation, availability of manufacturing equipment, etcetera. Such decisions are, however, weighted in Canada, and I have no doubt across the border also, by considerations of national interest.

When it comes to the decision as to where an individual machine or component will be manufactured, this is largely determined by factors similar to those governing the larger issue referred to in the previous paragraph, namely, the area in which the machine will be





sold in largest quantities, incoming material freight rates, the availability of the type of equipment required for its manufacture, the availability and cost of labour and supervisory staff experienced in the manufacture of this type of machine, and, of course, the availability of manufacturing space.

Therefore, if you are going to build a new machine those are the considerations which are used and not whether it is to be done in Canada or the United States; in other words, the same consideration as if one were dealing with numerous plants spread out in different parts of Canada or different parts of the United States.

Owing to the fact that the U.S. market for farm equipment averages roughly seven times the Canadian market, it stands to reason that any company, Canadian or American, which was successful in obtaining a large share of the U.S. market would enjoy a considerable advantage in freight savings on the distribution of its finished product if it were centrally located within that market.

This freight disadvantage for the Canadian manufacturer must, however, be offset against the fact that wage rates are generally lower in Canada than in the United States. As pointed out briefly in the earlier part of this report, I cannot emphasize too strongly that the maintenance of this favourable wage differential is essential to the welfare and the future development of the Canadian farm implement industry. Without this differential, the more powerful American





industry, with its larger domestic market, its greater volume, and in many cases, its better manufacturing equipment, would gradually gain ground upon the Canadian industry. That is an absolute essentiality.

On the credit side of the ledger there is another advantage which we Canadians have and that is that the corporation tax has been in our favour also. Whether that will continue or not I don't know. It depends what is going to happen probably in the United States, but in the meantime we derive an advantage from it.

Obviously the question of exchange rates is another important factor which would affect the situation. As far as we are concerned we are glad to see both rates are more or less parallel again.

The net effect of the above considerations appears to give the Canadian manufacturer of farm machinery a slight edge over the American manufacturer. It is important to note, however, that if the wage and tax differentials were eliminated, or the Canadian dollar sold at an important premium over the American dollar, the advantage would rapidly shift to the American side.

The question of location is also tied up to quite an extent with our overseas exports. In the past the Canadian industry enjoyed a very large overseas export sale of Canadian made implements. Whereas it was 39 percent today that has dropped to 12.2 percent shipped overseas -- a tremendous drop in our export market.

A revival of exports would enhance the



advantage of an Ontario location, as compared with the U.S. Middle West for example, and the St. Lawrence Seaway would make this advantage greater still.

I am confident that our Government is overlooking no opportunity to press for the removal of restrictions on purchases of Canadian implements abroad. I would recommend that the Government also give consideration to the need for medium term export financing facilities to put the Canadian exporter on a basis of equality with his competitors in the U.S., U.K., and elsewhere. In these countries, exporters can finance medium term export sales, outside their ordinary financing, without records, and the financing institution can re-insure with government agencies set up for that purpose. We don't have that in Canada and in view of the importance of the struggle to reach these export markets I think that is something which should well be given considerable consideration.

Now, we come to the rather hazardous question of the future prospects of the implement industry in Canada. I am dealing largely to begin with, with the domestic market. In the long term view, the prospect is excellent for further expansion of the Canadian industry. The record of history in Canada and the U.S. shows that farm income and farm machinery sales follow the trend of gross national product with a somewhat slower rate of growth. If the official forecasts of gross national product in Canada and the U.S. are correct, and on the basis of the above-mentioned relationship, the farm equipment





market in both countries will expand materially over the next 20 years. A purely mathematical projection of these past relationships would indicate market growth as follows:

IN CANADA

A growth by 1965 of 53 percent over 1955 and, by 1975, of 112 percent over 1955.

IN THE UNITED STATES

A growth by 1965 of 29 percent over 1955 and, by 1975, of 72 percent over 1955.

Now, that sounds good but I would like to draw your attention to the fact that 1951 and 1952 in the United States -- no 1951 in the United States and 1952 in Canada, were abnormally inflated peak years, based on post-war conditions and based on Korean conditions and so on which were abnormal and therefore this projects a trend which I am mentioning by 1965 to figures resembling those of 1951 and 1952. I quote these figures with some hesitation. They are based on all sorts of unpredictables -- the condition and attitude of the government towards wheat and farm implements and surplus and what not, but nevertheless I would say I am confident in this farm implement business, based on a long experience of it and I am inclined to say that the figures I have given would be exceeded in both the years 1965 and 1975. I really do believe that the increase would be greater than I have stated there or than would be revealed by this mathematical calculation. I feel confident that as far as our company is concerned -- and that is the



only one I can see reasonably clearly into -- I feel confident that that will be exceeded.

When it comes to the very difficult situation of exports I have not cared to venture any prediction whatever as to what is going to happen to agricultural machinery in the export field. The entire field is continuing to develop by leaps and bounds. They are developing more rapidly than the markets in United States or Canada but unfortunately they are not doing so good for the Canadian economy. We have been losing our export markets and this situation has been deteriorating ever since the end of World War I, when the difficulties engendered by the financial upheaval which followed in its wake made it necessary for certain countries to restrict their imports through high protective tariffs and manufacture locally those machines which they had traditionally imported from the U.S., the U.K., and Canada.

As a result of the economic dislocations of World War II, this situation became aggravated and it soon became evident that the sterling area group and the soft currency countries could, generally speaking, no longer import from the dollar areas. In order to hold their far-flung businesses together, certain Canadian manufacturers were obliged to open up factories in various parts of the world from which goods now flow, not only to the domestic markets of the countries concerned, but to a vast array of countries previously served from Canada.

At the present time, the exports of the





Canadian farm equipment industry are, speaking broadly, restricted to the Americas, and even here, many important countries have closed or are closing their doors to North American imports. An increasing number of countries, suffering from a chronic shortage of foreign currency, favour the manufacture of implements locally, even when the resultant cost is greatly in excess of that of the imported article. Turkey, Argentina, Brazil and Chile are among these.

These economic forces, which, throughout the years, have obliged our own Company, for instance, to open up manufacturing plants in Germany, France, England, Scotland, South Africa and Australia, have not yet spent themselves, and it may well be that further expansion abroad will become necessary, with a corresponding reduction in exports from this country.

Speaking again for our Company, this policy of opening up manufacturing facilities abroad is one which we have always resisted. At no time have we opened up a manufacturing plant in a foreign country until it had become obvious that we could no longer supply that country through our existing facilities.

All that can be said with certainty about export markets is that they are by far a less important part of Canadian production than they were in the past, and that whereas we still hope that as the world slowly recovers from its present difficulties, there may be some return to traditional sources of supply, we have little concrete basis for that hope at present.

Meanwhile, the farm implement industry,





both in Canada and the United States, is relatively depressed, with sales volume in Canada down 35 percent from the peak level of 1951, and the U.S. down 20 percent from the peak of 1952. This reflects chiefly the reduced cash income of the farmers in both countries and continuing uncertainty as to the marketing of surplus farm products.

Although a firm supporter of the thesis that the less the government interferes in commercial affairs the better it will be for the long-term prospects of this country, I would venture to suggest that since the government is already somewhat involved in some important aspects of our farmers' problems it would do well to study and review once again the problems of a depressed agriculture in an otherwise healthy and buoyant economy.

I think that ~~since~~ we are already in the problem of wheat surplus and what not, that we should go further into it and have a look at it all.

THE CHAIRMAN: Would you like to expand that? Have you any suggestions that you feel like commenting on?

MR. DUNCAN: No, I am just suggesting that there is a tremendous problem which I don't see somehow is being tackled and I just don't believe this country can continue to go along with a strongly depressed farm industry as the whole farm economy is in a time when everything else is going along so well and if the government was not mixed up in this thing at all I would say let the situation straighten itself



out as it has in the old days but that is not the case. The government is in this situation of wheat marketing and so on and I am suggesting that being there perhaps it might go a little further and study these problems because I feel something should be done about it.

THE CHAIRMAN: You would not suggest they pull out altogether?

MR. DUNCAN: I have not said that. In regard to the prosperity of our farm machinery industry it has always been since we started in business 108 years ago, and always will be, dependent on the prosperity of the farmer. As long as the farmers are unprosperous we are unprosperous and when they pick up we will pick up also.

Just one other suggestion. You asked me for one and I will give you one. The Farm Improvement Loan Act which has been one of the most constructive things which the government has done and has worked out splendidly for the farmers as a whole but I think it has had a very levelling effect on the whole farm economy. At the present time this Act specifies a maximum loan eligible for guarantee of \$4,500. I strongly recommend that this figure should be increased to \$6,000 to keep pace with the higher general level of prices, for instance, the more mechanized method of present day farming which requires much more capital. I think an improvement there would do quite a lot for the farmers.

Now, in closing I would just like to refer to one other trend, a trend which is showing





up with increasing insistence. I have stressed the fact that the Canadian farm implement industry - and in this, the United States industry is in no way dissimilar - has lost position in the world markets through lack of convertibility and other financial difficulties which have interfered with the normal flow of trade.

This is not, however, the only factor involved. High cost of production in Canada and the United States has also played its part in certain instances in our ability to compete in the export markets of the world with other countries, among which I would include the United Kingdom and Germany. High labour costs, particularly in products where the labour content is high, has been mainly responsible for this situation.

Canada, whose economy is dependent in no small measure upon her export trade, will require to keep a careful balance between the desirable objective of an ever-increasing standard of living and the ever-present danger of pricing ourselves out of the world's markets.

That is all, gentlemen. If there are any questions you would like to ask me ---

THE CHAIRMAN: Thank you very much,  
Mr. Duncan.

MR. STEWART: Just on that last point, Mr. Duncan, we have had the suggestion made to us in representations that the process of adoption to farming of the internal combustion engine as far as cereal



production is concerned has gone a very considerable way and perhaps in Canada we cannot expect much increase in that phase of mechanization?

MR. DUNCAN: You mean in the motive power field?

MR. STEWART: Yes, particularly in cereal production.

MR. DUNCAN: I would not agree with that. I think that there are important things happening in the automobile trade which are affecting the design of engines which will make them more economical, make them use other fuels and I am inclined to think that is perhaps one of the places where great development will take place, and as to the mechanization of taking off the crops, I presume you are speaking of combines. They have been mechanically successful and have made a great contribution. I don't think we have any idea in our minds of the improvements which will take place in the form of having grown and doing things more economically.

MR. STEWART: The general effect of that has been to increase the size of farm in terms of acres and that process would continue, do you think?

MR. DUNCAN: That may or may not be so. There are many reasons which will increase the acreage of farms. All the farmers have got available today for their use, not merely equipment which was generally speaking not as economical as the big farmers used, that is, if you did not have a large farm you could use it very well, but there are smaller sizes to be obtained now for small people and I don't think that has anything





to do with the trend towards the larger farm. I don't think there is any question about that, not only in this country but the United States and many parts of the world. I think there are a lot of reasons for that.

MR. STEWART: Would you care to offer any comments on expanding markets for cereal products, export markets?

MR. DUNCAN: In the farm machinery business?

MR. STEWART: No, export markets for farm produce. I raise this question in connection with a reference to the position of the agricultural implement/<sup>industry</sup> and participation of government in that. Do you see ways in which we can contribute towards that?

MR. DUNCAN: I don't know, of course, what the government might do about it. I don't think I am qualified for that.

THE CHAIRMAN: That is putting you in an unfamiliar role.

MR. DUNCAN: I don't think that I would like to make any suggestions along those lines. I have not really studied the situation fully enough. I suppose you mean what steps will be taken to merchandise some of our wheat and so on, being one of our basic products?

THE CHAIRMAN: Yes.

MR. DUNCAN: I don't think I would like to jump into that problem.

MR. GRAUER: Is it the situation that the large Canadian producers still produce at slightly more cost per unit than the cost in the United States?

MR. DUNCAN: No, we have come to the





conclusion that providing conditions remain not any worse as far as cost of labour and advantage in taxation are concerned we think, as a whole, we have got a slight edge. That edge does not apply to everything. Obviously if it is a company competing in a small way with a very large United States manufacturer that would not be so up in Canada but given reasonable volume we consider productivity in this country is just as good as productivity in the United States, given the same conditions, given the same production. So given those two factors we feel perfectly capable and the fact of our good business would indicate that we must be capable to compete with the American market.

MR. GRAUER: If convertibility of currencies was re-established, would that have much of an effect upon Canadian manufacturers or has this trend towards factories within other countries got too far settled?

MR. DUNCAN: Well, I would think it would have some effect. Of course, a lot of these factories were established on account of lack of convertibility. If convertibility were to become normal there might be a market for goods from Canada but on the other hand when countries have established a strong industry and have all the interests working around it and all the labour, I know certain countries based on my long experience in farm affairs, certain companies who, if it became economical to buy, they would find some other reason to provide a market because



they would not want to give up a local national product. We had this same state of affairs in a much lesser way after World War I and that was not on account of lack of convertibility. It started out with financial embarrassment, etcetera. We had reasonable convertibility then but these companies set up a manufacturing plant and protected that and still continue to protect it and I might say have X duty, whatever the form, to protect it. It is much different now than it was years ago. I am inclined to think many of them would find other ways to protect their local industries. Without convertibility I would say it would open up a greater outlet for Canadian productivity but as I mentioned in the last part of my brief we are becoming less competitive in many of these markets because the cost of our product is too high. Therefore whatever convertibility existed they would not buy from us unless they could buy economically and competitively from us.

MR. GRAUER: Would you say that our costs are at a steeper incline than the costs of some countries particularly in Europe?

MR. DUNCAN: Well, we hear an awful lot about inflation in England at the present time. I can't take it all seriously because I think inflation in North America although it is held under control at the present time is very apt to be from the public and be higher. Then there is the amount of this upsurge of wages that is breaking out. I am inclined to think that England in the long run will not suffer from inflation





tendencies any more than we will and therefore we will keep the level which we enjoy at the present time.

MR. GUSHUE: Do you think there is any fear, Mr. Duncan, of imports coming into Canada from some of these countries with lesser plants and so on? To put it perhaps more clearly, would it be a possibility that some of the factories established in other countries would be sending agricultural machinery here?

MR. DUNCAN: I think there is danger of that. One must recognize it because it exists today and it did not exist before the war. There are agents from England that are importing tractors and selling them on the Canadian market at a price which the Canadian manufacturer and American manufacturer find it difficult to compete with.

MR. GUSHUE: The market, of course, is open to them?

MR. DUNCAN: Yes. Before they have not considered it but now with their lower costs in relation to ours it is coming in. There is some coming in from various places even some from Germany.

MR. GUSHUE: There is a growing possibility of that?

MR. DUNCAN: There is a possibility of that.

MR. LUSSIER: Mr. Duncan, you were mentioning that the cost of labour is an important factor which permits your company to compete with the



United States. Now, is there a great deal of difference between the cost of labour in the United States and here?

MR. DUNCAN: Yes, as a whole our labour costs less than it does in the United States. Our Canadian labour is less costly. If it was as costly as in the United States we could not ship our goods into the United States.

MR. LUSSIER: Much less?

MR. DUNCAN: That is very difficult to say, because you would have to be manufacturing the same thing on both sides of the line but there is a substantial difference in our differential at the present time which is perfectly natural because of the lower cost of living in this country than in the United States.

MR. LUSSIER: Does this mean that the Canadian industry is less efficient in any other way?

MR. DUNCAN: No, I don't think it would necessarily mean that at all. I must say I think the position of the agricultural implement industry is very peculiar so far as this penetration of the United States market is concerned and I would like to emphasize again that there is only one company that has done that very successfully. There is only one company that is established which is very strong in that market so it is not even a common penetration for the implement industry so that I don't see that anything I have said here would have any effect on other industries that have not had the same background as us.

THE CHAIRMAN: Mr. Duncan, you have made that clear and I thought you made it clear in your





opening statement but it is such an important factor in the work we are doing I would like to develop it a little more. I have had the privilege of having some indirect connection with your company over a good many years and it seems to me that the decision which was made in the early '30's very shortly after you took over the management of the company to develop and expand the American operation, the American subsidiary company, had a tremendous lot to do with the outstanding success which your company has had. It seems to me that that decision and more recently your decision to purchase the Ferguson Company were two really startling decisions that have been made that have put your company in the very strong position that it is in. It seems to me that it is worthwhile emphasizing that other Canadian companies in the implement industry that were in business back in the '30's when you did what you did, have disappeared from the scene, not all, but a number of them. Now, the reason I think it is worthwhile underlining this little bit is that it is said on occasion that the agricultural implement industry in Canada is the example that people use to argue that manufacturers in this country, or a lot of them, if given free access to the American market, can operate successfully on a basis of no tariff either way between Canada and the United States, and I gather from what you said that you would feel that such a generalization would not naturally have a wider application and that insofar as the Canadian agricultural implement industry is concerned, or certainly as far as Massey-Harris-





Ferguson are concerned, there are two conditions which have been absolutely necessary, one, that you should have in the United States not only a manufacturing operation there but also there subsidiary markets so that if machines are made in Canada they can enjoy the savings and advantages of mass production and high volume production because they can be shipped into the market which you have developed in the United States and your view is that the second necessary condition is the advantage which your Canadian plant has over American plants in that the labour rates are substantially less?

MR. DUNCAN: I think that is largely correct. I think if there is one thing that one might encourage Canadian manufacturers to do, it is to not consider the American market as a closed door but to go in there and get their feet wet and compete. That, of course, is easier for us now that there is no tariff. If there was a heavy tariff against us, that would make the thing quite impossible, but I do emphasize, as you have said that I would have thought at least it would be a very difficult job to simply export goods from Canada into that great competitive market unless you establish a strong base there to start off from and that is what we did. That was perhaps the more courageous thing, to go in and get ourselves established there and then bring in the stuff to round out the line. Without it, I think it would have been difficult but I don't say the doing of that is an impossibility for other companies. You never know what conditions are,



but that is the solution. I should have said once you have done that and you have so established yourself then you import into it, develop an organization and you get a lot of volume for Canada but that volume must be dependent upon the maintenance of a differential in wage rates. Otherwise, if all we had here was an adverse freight rate plus rather small organization over there we are doomed to ultimate shrinkage of the business. There is no question of that at all.

THE CHAIRMAN: Thank you, Mr. Duncan.

Before you retire I would just like to say how grateful the Commission is to you and to the International Harvester Company and the other members of your industry for the help which you have given to Mr. Clarkson and Mr. Chowen in the study of the industry which they are making for this Commission. We are most grateful to all of you for that help.

MR. DUNCAN: Thank you very much.

THE CHAIRMAN: We will see you later in the week with your other hat on, not a very different other hat, the same general idea.

Thank you.

--- Recess

--- After recess

THE CHAIRMAN: Shall we come to order, gentlemen? Mr. Bradley, we welcome you here and we will mark your submission on behalf of the International Harvester Company as Exhibit No. 152. We have not read this, so perhaps if you would not mind reading it to us.

MR. BRADLEY: Thank you very much, sir.





May I proceed?

THE CHAIRMAN: Yes, certainly.

MR. BRADLEY: Mr. Chairman: I am pleased to accept your invitation to present to you and your Commission my views on the various questions set out in your letter dated November 2, 1955. If it is your pleasure, sir, I will proceed in the order as outlined in your letter.

First, you have requested my views about the probable development of the agricultural implement industry over the next 5, 10, 15 and 25 years. It would be very difficult, if not impossible, to make an accurate forecast that far into the future. However, by an analysis of current trends and using the experience gained in the past as a guide, a fairly accurate forecast, I believe, can be made relative to the development of the industry in the future. Before making this forecast into the future, let us examine some of the factors that have a far-reaching influence.

The success of our business, like any other business, depends on how well we meet the demands of our customers -- and I believe these could be divided into two principal categories:

(a) Our machines must be of a design and sufficiently well made to reduce the farmer's cost of operation, thereby improving his earnings. Savings must be sufficient to offset the capital cost of the machines within a reasonable period and make a profit on the investment.

(b) Replacement parts and adequate



mechanical maintenance must be available within a reasonable distance of where the machines are being operated.

It can therefore be seen that, in order to meet our customers' demands, our obligation is two-fold. First, as manufacturers we must design and build efficient, long-life machines. Second, we must associate ourselves with competent farm implement dealers in the rural areas, who are capable of merchandising and servicing the farm machines applicable to their trading areas.

You might well ask why I rate servicing of our machines in importance along with design and manufacture. My reason is that, progressively, farm machines are becoming precision-made and more complicated. To further illustrate this point, the modern pick-up baler performs in one operation, with one man, the work that originally required three distinct operations and the services of four men. The design of the modern pick-up baler now combines three machines into one, consisting of a pick-up device, a baler, and an automatic tying device. In the past farmers were able to repair their own machines; but this is becoming more difficult and in some cases impossible, because the repair and adjustment of modern farm machines requires special training, special tools, etcetera.

In my opinion it would be impossible to over-emphasize the fact that, to meet the demands of our customers, there must be a sincere co-operative effort between the manufacturer and his dealer





organization.

Speaking for my own Company, each year during the past decade we have increased our staffs in research, advanced engineering, and product development. Each year we have released for sale some new machines and improvements to existing machines. We also find that our dealer organization is keeping pace with the development of these machines. They are improving their shop practices, increasing stocks of replacement parts, and are giving far better maintenance service than they have ever given before. In co-operation with our dealer organization, we are constantly carrying on educational and training programmes that will ensure continued development for the future.

We believe we are currently meeting our customers' demands. Farm machines are being made in Canada of good quality and in sufficient quantities. These machines are being distributed and serviced by a vast network of farm implement dealers and are being sold at prices which are comparable with those found anywhere on the North American continent.

It is a well-known fact that operating costs are increasing on the farms as well as in industry. More efficient and labour-saving machines must be developed for the future. The farm implement industry has a long and enviable record for the development of labour-saving machines in the past and I see no reason why we cannot produce better and more efficient machines in the future. I have complete confidence in the future development of the agricultural implement





industry and it is my sincere opinion that our industry will keep pace with the development of our country.

#### SIZE OF THE MARKET

You have requested information concerning the probable size of the market for agricultural machinery in Canada in view of the trend towards farm mechanization, the prospective development of new types of agricultural implements and other factors.

Statistics are available since 1936 from the Dominion Bureau of Statistics covering the dollar volume of farm implement and equipment sales. We have naturally taken into consideration these statistics in forecasting the probable size of the market in the future. We have also taken into consideration the following factors:

(a) Through economic necessity, individual farms are becoming larger thereby reducing the number of individual farms.

(b) There is a tendency toward the use of fewer but more efficient machines per farm. This is being brought about by use of machines with greater work capacity and machines with combined functions.

(c) In order to keep pace with scientific farming developments and to reduce costs, mechanization of farming operations will continue at a rapid rate.

Taking into consideration the historical achievements of the industry and the current demands of farmers generally, we estimate that during the next ten years total sales of farm equipment, including tractors, will reach 300 million dollars. There will



be a large increased demand for agricultural products if the estimated increase in world population is realized. It is reasonable to assume that sales of agricultural machinery during the following 15 years will rise 50 percent and reach a total of 450 million dollars.

#### TARIFFS

You have asked why our industry has been able to operate in Canada without tariff protection. You have also asked me to explain the factors which guide our Company in determining whether a given line of implements will be manufactured in Canada or the United States.

I would first like to express an opinion why our industry has been able to operate without protective tariffs. With the close of the war, tariffs had been eliminated, the war exchange tax had been removed, even the advantage under the exchange factor on United States dollars had disappeared and the industry was faced with the necessity of supplying the Canadian trade with farm implements without any form of protection whatsoever. We were left with the problem of meeting direct competition from all manufacturers of this equipment in the United States.

A close examination of these factors revealed that our problem was not an insurmountable one as an analysis of the markets in Canada and the United States disclosed that on most machines there was far greater sales potential south of the border than in our own country. While it was obviously





true that Canadian manufacturers now had no protection from United States manufacturers, it was equally true that United States manufacturers had no protection from Canadian manufacturers. In other words, there were no restrictions which provided penalties against the shipping of Canadian made farm implements into the United States.

It seemed that the only question to be resolved was whether or not we were as efficient manufacturers as those in the United States. It has been found in actual practice that, with adequate plant and equipment in Canada and the necessary know-how available, we can compete very favourably in United States and Canadian markets with United States manufacturers. This is especially true where markets are in close proximity to our plants.

It is my considered opinion that this turn of events has been good for Canadian manufacturers of farm implements. Without question, it has been good for the Canadian and the United States farmers as they have been privileged to buy the most efficient machines at the lowest possible price.

I now turn to the second portion of your question. And that is how we determine whether the machine will be made in United States or Canada as far as my own particular company is concerned. This is a very simple question to answer. The manufacture of each machine is established in that factory, regardless of whether in the United States or Canada, where the combination of production costs plus transportation



costs to the point of use will result in the lowest possible price to the ultimate purchaser.

#### PROBLEMS FACING OUR INDUSTRY

Our greatest problem is one over which we have little or no control and that is the weather. Our business depends to a great extent on seasonal conditions each year. If there are droughts or an excessive amount of moisture over a prolonged period, our business is naturally severely curtailed.

Manufacturing schedules must be established far in advance of the season of use of the machines. They are usually based on the expectations of a reasonably good season as far as weather is concerned. If an adverse season is encountered, sales diminish and large carryovers of inventories are the natural result, with their consequent effect on manufacturing schedules and employment in the following year.

The other big problem that we face is the wide fluctuation in the farm income. This subject, I am sure you are well aware, is being given great study by all concerned. We are hopeful that at least a partial answer will be found. Traditionally, however, we have always had to live with these two basic problems.

#### SUGGESTED PASTURE IMPROVEMENT PROGRAMME

In closing, there is one other subject that I would like to bring to the attention of the Commission and that is pasture improvement and fodder conservation. In my opinion we in the North American continent are not keeping pace with the development being made in such countries as New Zealand, Australia,





Denmark, Holland and some of the other countries of Europe. With few exceptions, our pastures consist of unimproved native grasses. If by a proper pasture improvement programme we could match here what has already been accomplished in some of the countries mentioned, there is little doubt that in some areas the productive capacity of our pastures could be doubled. I find that this progress has been achieved in other countries by close co-operation of the Agricultural Department, the farmers, and the farm implement companies. It seems to me that a very worthwhile project along this line could be carried out in Canada on a national scale. Speaking for my own Company, we would be very glad to participate in such a programme.

THE CHAIRMAN: Thank you very much, Mr. Bradley.

MR. GRAUER: Does there appear to be any organization taking the lead on that point you mention here, improving farm pastures?

MR. BRADLEY: Not that I know of, sir. It seems some farmers are interested and we do have a programme in certain localities but I think this is a problem which should be attacked nationally and that we in the farm implement industry as well as the Agricultural Department and the farmers could work together and we could produce some marvellous results. There are a number of places right now in Western Canada that are very badly short of feed and I think by proper application of pasture improvement





programmes (they are already a fact, they have been worked out, they have proved a success in other countries) that they would solve the problem which we have of adequate fodder to carry the cattle during the winter.

MR. GRAUER: It has been done in some places in the United States, has it not?

MR. BRADLEY: To some extent. I can say with some knowledge that the United States is lagging very far behind such countries as I have mentioned in this programme.

MR. GRAUER: Does it require a lot of water?

MR. BRADLEY: No, it is principally through the proper preparation of the soil, that is, the proper preparation of seed beds, fertilizer and proper seed selections. In some cases you have in some sections of the country, places where great improvement could be made by the selection of grasses that are better suited to that particular climate than the natural grasses in that particular area, so it is a combination of things. I am not advocating, I don't mean to bring into this subject the advantage of irrigation. Naturally, that would be an additional advantage, but I am taking into consideration the conditions that we have to work with, that is, our normal rainfall in these various areas. They can be greatly improved.

MR. GUSHUE: On page 3 just possibly for my own information in regard to your estimates



of where the industry will reach in 10, 15 and 25 years, what is the present point? You say in the next ten years the total sales of farm equipment will reach \$300 million?

MR. BRADLEY: That is correct.

MR. GUSHUE: What is roughly the present position?

MR. BRADLEY: The industry figures just immediately following the war -- well, let us go back first to just prior to the war. From the beginning of the time that we had statistics they ran about \$36 million up to just before the war to about \$96 million and then immediately after the war -- I will just read you off the figures here.

1946	-	\$136 million
1947	-	\$192 million
1948	-	\$239 million
1949	-	\$272 million
1950	-	\$264 million
1951	-	\$252 million
1952	-	\$256 million
1953	-	\$238 million

And in 1954 it dropped down to \$147 million. You can well understand that these figures here just following the war were the result of a very pent-up time. In addition to the pent-up time there was a great change in agricultural practices which brought about increased mechanization immediately after the war.

Now, to level this out, no doubt your starting point should be somewhere in the neighbourhood





of \$175 to \$200 million reduced back to a normal demand and that would give you some idea of the increase we expect normally in the industry in the next ten years.

MR. GUSHUE: You make the point that the absence of tariff barriers between Canada and the United States has resulted perhaps necessarily in a greater efficiency in the industry. Do you think that is a principle that might obtain in other branches of industry and is it a good principle or is that too broad a question to ask?

MR. BRADLEY: No, I don't think so. I think in my own personal opinion that would be true if the conditions in the other industries were related to our own. To further illustrate that point, if there were no tariffs into the United States, that is, if nothing would bar a Canadian manufacturer from shipping goods into the United States as we presently enjoy, then I think that any branch of industry would have just as good a chance as we have had in the farm implement industry of competing with those fellows on their own ground.

THE CHAIRMAN: Just on that point, Mr. Duncan said from his standpoint, one of the necessary conditions was a strong basis from which to build in the United States. Would you feel that if you did not have an International Harvester Company in the United States that you would still be able to sell in that market on a substantial scale from Hamilton?

MR. BRADLEY: Yes, I do. In fact, it



may be of interest, it might be amusing to you, that we compete directly with our counterpart in the United States, that is, our own plants in the United States. It might be of interest for you to know that I believe the last five major machines that have been put into production applicable to this area, that is, in the eastern part of the United States and this portion of Canada, the last five major machines we have beat the Americans out in direct competition in manufacturing costs.

THE CHAIRMAN: How do you sell, through your own sales outlets in the United States?

MR. BRADLEY: Well, you see, our sales organization naturally operates from the producing divisions and they market the goods but they buy in the cheapest market.

THE CHAIRMAN: Would you expect then that the Canadian production facilities of your company may expand in this country fairly extensively?

MR. BRADLEY: Yes, since we have been put on our own, so to speak, we have been fastly gaining ground in participation in the markets in the United States.

THE CHAIRMAN: Thank you very much, Mr. Bradley. Some time when you see Mr. Jacks, your financial vice-president in Chicago, I wish you would give him my very best regards and thank him for the help he has been to Mr. Clarkson and Mr. Chowen.

MR. BRADLEY: Thank you very much.

THE CHAIRMAN: Well, shall we come to order?





It is nice to see you here, Mr. Crawford. You were kind enough to let us have your submission. It is good. We have had a chance of glancing through it. We will mark it Exhibit 153 and if you will be good enough to present it.

MR. CRAWFORD: I have no other words of wisdom than this, so should I read this, Mr. Gordon?

THE CHAIRMAN: Well, I think so.

MR. CRAWFORD: Dow Chemical of Canada, Limited, appreciates this opportunity to present to the Royal Commission its views on Canada's economic prospects, with particular reference to the chemical industry.

In 1942 Dow built the styrene section of the government-owned Polymer Corporation synthetic rubber plant at Sarnia, Ontario, and operated it during World War II. In 1946 Dow purchased property adjoining the Polymer plant and established its own chemical manufacturing operations.

We now have facilities worth about 50 million dollars for the production of glycols, ammonia, industrial solvents, chlorine, caustic soda, styrene, synthetic latices and plastics. Other facilities under construction, including a large research laboratory, will add an additional 10 million dollars to our Sarnia investment. We employ approximately 1,000 people, of which all but three or four are Canadians.

Since its inception, the Dow Canadian organization has focused its attention on the Canadian market. It has never been our intent to use the





Canadian operation as a spring board for export markets, though presently some of our production is being exported.

Prior to our commencing operations in Canada, we studied the economy carefully, and came to the conclusion that the nation was on the threshold of a great economic expansion. We saw a country rich in natural resources and with vast areas for growth. It seemed to us that all levels of government were anxious to encourage the development of these resources and to expand Canada's economy under the most enlightened methods of free enterprise. We saw an atmosphere favourable to "growth", a basic policy with Dow. The outlook for chemicals was bright. Primary industries such as agriculture, wood products and minerals were everywhere turning more and more to chemicals for assistance. Chemicals were used in agriculture to destroy pests and increase yield. The extractive industries were using chemicals in increasing quantities and varieties to do their jobs more efficiently. The variety of wood products was increasing as the industry learned to "up grade" its products through the use of chemistry. It seemed that the Canadian chemical industry keyed to these developing primary industries would have a bright future.

There are today many reasons for even greater optimism for Canada's future than there were in 1946. Canada's economy has in the past ten years expanded beyond our expectations, so that the value of the gross national product is already about where



many predicted it would be in 1965. Oil and other minerals have been found and developed at an almost unbelievable rate. Population has increased to keep up with the expanding economy.

We do not believe that this phenomenal growth in the Country's economy just "happened". It is true that during the period since 1946, prosperity and economic expansion has been almost world wide, and these external influences have been felt here. But we feel that our phenomenal growth could not have been achieved except in the atmosphere created by studiously instituted governmental policies.

Canada's expansion has required vast capital expenditures, and our governmental policies have been encouraging to capital, both Canadian and foreign. Our future expansion will surely be related to the capital that is provided for development.

Our government has been most alert to capital encouraging policies - policies which gave investments in Canada a "break" over investments elsewhere. Early removal of the excess profits tax, continual paring of the Corporation income tax, favourable capital cost allowances, and prompt elimination of monetary controls have caused to be invested in Canada literally billions of dollars. We believe, however, that one policy has already caused some unbalance in our development, and will surely cause more unless corrected. This is our policy towards tariffs. And I am confining myself to tariffs with respect to the chemical industry only.





We believe strongly that Canada's economic future will be in large part determined by policies that affect its secondary industries. Policies which tend to discourage the secondary manufacturer will tend to retard the kind of well rounded development that gives full employment and a high living standard to all our people. Our present tariff policies, which make "new" tariffs so difficult to obtain, do tend to discourage new secondary manufacturing.

We do not intend to take the role of protectionist, nor to argue against "free trade". We intend rather to outline, as briefly as possible, those factors which often discriminate against the Canadian manufacturer whose hope it is to serve the Canadian economy.

Trade in Manufactured Goods is Frequently a One Way Street

We know of no foreign markets open to us to the same extent that Canadian markets are open to other nations. Most foreign markets are protected by import restrictions, monetary controls and tariffs. As a result of these, many, if not most, foreign markets are closed to us except when serious shortages exist within those countries. Even with tariffs, our market is "open" in that none of these other restrictions are applied here. Thus frequently the Canadian manufacturer must compete with foreign goods in his own home market, though he is completely blocked from the home market of his foreign competitor.



A "Status Quo" Policy on Tariffs discourages Proper  
Integration and Growth

It would appear that our policy today tends to maintain established tariffs but deny new ones.

This certainly is the net result when items are "bound" by multilateral trade agreements such as the General Agreement on Tariffs and Trade. This policy tends to give protection to entrenched products which need it least, and deny it to new products which need it most.

End Use Consideration Seems Discriminatory

The Canadian chemical manufacturer is confronted with duty free end use on a wide variety of chemicals, many of which are not today made in Canada but which otherwise might be made here. Chemicals which go into such industries as agriculture, mining and synthetic rubber are for the most part excused from the payment of duty. The chemical manufacturer in Canada can not hope to compete cost-wise with other chemical producers if he excludes these products from his plan of integration, yet he seldom can justify the investment if he must compete on a duty free basis. We emphasize that frequently the Canadian manufacturer must supply the entire Canadian market to get sufficient thru-put. To capture this entire market, he must put his product on the market at a price below that of his foreign competitor. Thus without a tariff the Canadian price must frequently be lower than the foreign price in the foreign market.





### Made in Canada

It seems to us that the "Made in Canada" principle must be recognized as the most equitable basis for Canada's tariff laws, though we know there are some difficulties involved in administering such a policy. We believe that if any items are to be on the "free" list, those which must be imported should be there. It is extremely objectionable to the Canadian manufacturer to be without protection on his own new products, yet be required to pay duty on materials and equipment he cannot buy in Canada. It seems to us that difficulties of administration could be overcome by a more precise wording of the Act.

### Drawbacks

Goods imported into Canada for certain specific purposes in the Canadian market are allowed duty drawback. Drawbacks are also allowed on goods imported for further manufacture, if the finished product is exported. It would seem that the latter is reasonable but that the former is discriminatory.

### Dumping Duty

The intent of Canada's dumping duty legislation is, we believe, most commendable. A substantial portion of Canada's secondary industries surely owe their existence to this provision. We are nevertheless sure that it is frequently possible to circumvent the intent of this law, because of its somewhat ambiguous verbiage. I guess that is redundant. "Ambiguous" is "verbiage". I suppose that is repeating itself.





THE CHAIRMAN: You have to be careful with these university presidents here.

MR. CRAWFORD: This comment is not intended to be in any way a criticism of those whose task it is to administer the law.

### Conclusion

We believe that in general our government's fiscal policies and its handling of such matters as taxation and immigration are most far sighted. We hope these progressive policies will be continued and that this Commission will recommend further reductions in Corporate income taxes and will encourage other fiscal policies favourable to capital investment in Canada.

We suggest that consideration be given to the recommendation of a review of the chemical tariff law and its application. It seems to us that Canada's tariff policy works against the many fine steps taken by our government to encourage the development of Canadian secondary industry. Most of the difficulties seem to stem from outmoded sections of the tariff law rather than from administrative interpretation and procedure.

Specifically, we believe the following are out of step with an expanding industrial economy.

(a) Failure to recognize the need for tariff protection on new products.

(b) Permitting discriminatory "end use" exemptions from tariff.

(c) Permitting loop holes to exist in



the dumping duty legislation.

Our considered opinion is that Canada's economic prospects are exceedingly bright. We believe they will be brighter for us, and many hundreds of other Canadian manufacturers if it is quickly recognized that to a considerable extent, the Canadian manufacturer today is being required to compete under rules which give certain advantages to his foreign competitor. We believe this handicap has tended to retard well rounded industrial development and may cause much more serious trouble in the future.

THE CHAIRMAN: Thank you, Mr. Crawford. Where does your company's principal competition come from -- the United States or Europe?

MR. CRAWFORD: Principally from the United States.

THE CHAIRMAN: From your own parent company?

MR. CRAWFORD: Yes. That was not true before the war.

THE CHAIRMAN: What will they say to you for expressing these views?

MR. CRAWFORD: Before the war, of course, Germany was the principal competitor.

THE CHAIRMAN: But the problem now is importations of chemicals from the United States?

MR. CRAWFORD: Right. We commenced to feel a few importations from abroad but not too many.

MR. GUSHUE: When you speak of tariff protection on new products do you mean just while they





remain new or do you mean protection over a period?

MR. CRAWFORD: I think I would settle for that if I could not get anything better or I would even settle for one graduated as to time but substantially we do need it at the start until we can build up a market to lower the unit costs. We always find that unit costs are controlled by volume. If you would like an illustration, when we first started to make polystyrene over here we had no tariff protection. We got it later to the extent of  $7\frac{1}{2}$  percent, and just to contrast with your previous guest here, Mr. Bradley, we have  $7\frac{1}{2}$  percent against the United States sending polystyrene against us here. Going into the United States -- this is a material that sells for about 28 or 30 cents a pound -- I say 28 cents because it makes the mathematics easy. Going into the United States we are faced with 7 cents. That is 7 over 28, or 4 cents plus 27 percent ad valorem so they have a 55 percent duty against us going into their market and we have  $7\frac{1}{2}$  percent against them coming into our market.

THE CHAIRMAN: Do you think if there were no tariff you could find a substantial market in the United States?

MR. CRAWFORD: I don't think so. Much would depend on the talent we would have here which would give us a handicap over production in the United States.

MR. GUSHUE: You mentioned you had expanded into some exports. Is that to the United



States or some other countries?

MR. CRAWFORD: Principally, and very little in the United States. Only when they are short of certain items are we able to get in there. Principally it has been in plastics abroad -- France, England and the western world.

MR. GRAUER: This gas pipeline built on the Pacific Coast, will there be a sale of by-products from that? I gather that would not be the basis of a chemical industry on account of lack of markets?

MR. CRAWFORD: I don't think I would say that because it would be bringing the source of material to a market, but it would be a limited market on the Pacific Coast. There are plenty of products available in Edmonton with very little outlet. As you have now the West Coast Transmission bringing that material to Vancouver after all, the market is only British Columbia.

MR. GRAUER: The tariff situation keeps them out of the Pacific northwestern United States?

MR. CRAWFORD: Right, unless we can build up other markets. We would like to have the gas line bring the products into Sarnia from Edmonton and Calgary.

THE CHAIRMAN: Thank you very much, Mr. Crawford.

Well, shall we come to order, gentlemen? The next presentation is by Mr. Ash, the President of the Shell Oil Company of Canada Limited. We will mark his submission Exhibit No. 154.



Would you like to start in, Mr. Ash?

MR. ASH: Yes, sir.

I wish to thank you, Mr. Chairman, for the privilege of making this presentation to the Royal Commission on Canada's economic prospects. May I summarize my brief as follows?

SUMMARY

1. Economic progress is the growth in the real wealth per capita of the nation resulting in higher standards of living.
2. Canadian experience in common with general experience shows that a higher standard of living involves a greater per capita consumption of energy. In both, Canada is second only to the United States.
3. The fulfillment of Canada's great economic potential depends on a flourishing energy industry. The demand for energy in Canada has increased by 32 percent between 1946 and 1954. Future economic progress will require growing energy supplies.
4. Petroleum is easily the most important form of Canadian energy supply. Oil and natural gas in 1954 counted for 42 percent of total Canadian energy as compared with 23 percent in 1946 allowing for relative efficiency. An increasing reliance of the Canada economy on petroleum is certain.
5. Canada occupies an important position in the free world's oil picture. She has great reserves capable of development and this in a strategic situation in which the Western Hemisphere is becoming increasingly





dependent on the Eastern Hemisphere for its petroleum supplies.

6. The capital requirements to assure Canada's potential petroleum growth are so enormous that she should take advantage of every money source available to her, domestic or foreign.

7. Considering all of the foregoing it is essential the petroleum industry be free to develop unhampered by tax restrictions. In at least one important field the oil industry is actually penalized today in relation to its competitors in other countries.

8. Put in a different and more general way, since vast oil reserves await discovery, Government should give every encouragement to exploration.

9. After discovery, resources should be developed at maximum economic rate. Thus every encouragement should be given to consumption volume, producing reduced costs and so extending the competitive radius to which Canadian oil can be shipped. This will prepare the Canadian petroleum industry to meet the demand which will inevitably come as a result of Western Hemisphere consumption outstripping production.

10. Finally none of this is possible unless Canada produces the necessary numbers of professional personnel - particularly people qualified in the applied sciences. At the moment there is reason to fear she may not do so. In this, industry and Government face a serious responsibility.

#### DIGEST OF BRIEF

Mr. Chairman, as the time is late, and my



company's brief is somewhat detailed, I have prepared a digest and comment which I would like to read to you, tabling the full brief for such later study as you may wish to make. Is that agreeable?

THE CHAIRMAN: Yes. I had a very enjoyable Sunday morning reading it.

MR. ASH: Since North America accounts for 64 percent of world consumption while having only about 25 percent of the world's oil reserves, the importance of Canada's rapidly growing production and reserves cannot be over-emphasized.

Second, while the Western Hemisphere is multiplying its rate of consumption extremely rapidly, the balance of power in terms of petroleum reserves is passing to the Middle East. Every barrel of Canadian oil assumes an increased importance therefore.

#### Oil in Canada

Canada's petroleum reserves, modest yet by world standards, but important indeed in terms of future potential and geographic location, stand today as follows:

	1955	1965
	<u>Billion Barrels</u>	
Canadian Crude Oil Reserves	3.0	7.5 *
	(M. Barrels/day)	
Potential Production at 7% MER	560	1,450
Actual Production at Market Demands	360	1,057 **

(\* Allows for interim production

(\*\* Canadian demand economically met by Canadian crude is approaching ability to absorb productive capacity at MER (maximum efficient rate) of 7% per annum of total reserve)





The potential energy in the presently established reserves of natural gas (presently proved reserves about 15 trillion cubic feet) is of the same order as that in the crude and liquids reserve. This is a point not always appreciated. In terms of energy, gas equals our oil reserves. It is estimated this relationship will be maintained throughout the next decade.

Crude oil producers in Western Canada are faced with the geographical disadvantage of reserves far removed from the relatively densely populated Eastern Provinces. Ocean-borne petroleum is historically subject to fluctuations in price, in large part due to fluctuations in shipping rates. The world tanker market even in the relatively short term, reflects broad swings in freight rates. Taking pipe line costs in general into account, and particularly taking into account periods of low freight costs in tankers, it may be said that over the long and steady pull it is substantially more expensive to carry a barrel of oil by pipe line than by tanker. Western Canadian oil has to surmount on one side the Rocky Mountains and on the other side the mass of the continent -- both by pipe line. It would be a manifest absurdity for example to carry Western Canadian oil to Halifax. At Montreal it becomes a question of degree.

Imports of foreign crude primarily into Quebec and the Maritime Provinces seem likely to continue for some time to come. Nevertheless the Canadian balance on crude oil account will improve steadily over



the next ten years.

An estimate follows:

	Total Imports	Total Exports	Excess of Imports over Exports
	(Thousands of barrels daily)		
1955	211	48	163
1960	285	183	102
1965	313	275	38

#### Hemisphere Defence

Canada accepts its responsibilities in Hemisphere defence, not the least of which is a safe and constant supply of petroleum products.

World War II, and the Korean intervention, showed that military machines, once set into motion, have a voracious appetite for petroleum products, during World War II, for example, over 50 percent of all tonnage transported overseas by the Allies, consisted of such products.

World oil production is virtually at the limits of current capacity except for the Middle East. An international emergency might result in the dislocation of Middle East crude oil and supplies. This would interrupt some 80 percent of West Europe's supplies at current rates, and also would deny present imports of oil into the Western Hemisphere. The Free World would depend for almost all its oil supplies on the United States, Venezuela and Canada. The importance of Canadian oil potential from the overall Western defence aspect therefore needs no emphasis.

A military effort on the part of Canada





involving sustained industrial activity, would result in a sharp and rapid rise in the demand for all oil products. Rationing of civilian consumption will make a contribution but it is small relative to the magnitude of the problem as a whole.

On the score of sudden and abnormal surges in demand, petroleum ranks among the first materials on which the impact of a national emergency would be felt, and quickly.

#### Investment - Domestic and Foreign

From every standpoint, but above all from the standpoint of defence, the Canadian petroleum industry, and especially its producing branch, must always receive serious attention as to the continuing adequacy of its rate of investment. The capital requirement is staggering -- close to 8 billion dollars in ten years. The question of foreign capital inevitably arises. One has heard much of this in recent times in Canada.

Speaking as an oilman, I do not see, with the enormity of the figures confronting us, how we can afford to be selective -- because of its nationality -- about the dollar that may become available to us. If this is true of one Canadian industry it must be true of Canada as a whole.

#### Depletion

Canadian income tax accounting procedure for federal tax returns permits writing off for depletion an amount equal to  $33\frac{1}{3}$  percent of net revenue. This is an arbitrary or statutory rate. The U.S. producer is granted a depletion allowance of 27.5 percent





of gross income with a limitation of 50 percent of the net.

Not only is the U.S. rate of tax more favourable than the Canadian, but in two additional respects the Canadian producer is at a disadvantage. In the first place the Canadian allowance being calculated on the net only, if the operator continues aggressive exploration he may for a long time fail to reach the point where he has a net profit on which to take the tax benefit. A further point is that the United States allowance is granted on individual properties whereas the Canadian allowance applies only to the aggregate operations of the operator. Thus the losses on the unsuccessful ventures tend to reduce or even extinguish the allowance granted on the successful ones.

Canadian oil must compete with U.S. production. In doing so it must absorb a 10.5 cent per barrel import duty. Geographical considerations, notably the Rockies and the Prairies, impose an even greater cents per barrel disadvantage. Canadian wage rates are tending more and more toward equalization with U.S. rates. Therefore I urge consideration of a tax treatment for the Canadian producer at least similar to that enjoyed by his U.S. competitor.

#### Education for the Oil Industry

In spite of the many reasons why the applied sciences should appeal to university students, there is a serious shortage of graduates in these subjects. The mining school of a prominent eastern



university recently had a graduating class of eight. One oil company alone could have employed the graduating class; the oil industry could have employed many more again. It is surely remarkable that those professions which offer top salaries, unequalled opportunities for advancement, security, and at the same time adventure, should be lacking in candidates. Careful investigation is required to ensure that the right corrective action is taken.

Lastly, sir, being in the room we are, I give some comments on education.

THE CHAIRMAN: The room or the company we are in?

MR. ASH: The problem of education in Canada is complex but vitally important to the future of the country. It will undoubtedly be investigated by this Commission. Your findings and recommendations will do much to guide Government bodies, industry and private benefactors toward effective planning and action. The present trends constitute a serious impediment to the national development. They must be overcome if Canada is to meet the educational needs of a rapidly expanding economy and fully realize the industrial growth forecast for the future.

I thank you again, Mr. Chairman, for the opportunity of speaking to your Commission.

THE CHAIRMAN: Thank you very much, Mr. Ash. I have got some questions I would like to ask but I don't want to push them too hard. If I ask anything that you would think is going a little





out of bounds I think if you would wink at me or say you would not answer.

MR. ASH: I will try not to push the replies too hard.

THE CHAIRMAN: You have in your submission, made a number of statements which lead to discussion and I expect that is why you put them in, and I hope you will be disappointed if we miss them. You advocate quite strongly a continuing inflow of foreign capital into Canada and I expect that any sensible people would agree that the inflow of foreign capital into Canada has had a tremendously large part in the development that has occurred here. But at the same time certain questions have been raised with us which I would like to recite and perhaps then ask for your views on them, as to your opinion on their validity.

In the first place, reference has been made before this Commission to the important influence of wholly owned subsidiary companies in Canada of British or American or foreign concerns and their effect on the Canadian economy. Now, the question, of course, is not the fact that these companies are here but a questioning in some people's minds as to whether the policy decision or some of the policy decisions in some such cases are made -- where they are made and whether such conditions are conditioned primarily by the best interest of the company concerned, that is, the foreign company concerned and whether that necessarily coincides with the best



interests of Canada. Perhaps they are the same in nearly all cases, perhaps in all case -- I don't know, but that is one question I would like to have your views on. We might take that one at a time. It would probably be easier.

MR. ASH: Of course, I did speak about industry as a whole but I am really speaking as an oilman primarily. I would also correct slightly your quotation of myself. I do not think I say that foreign capital should be encouraged. I don't exactly mean that. I think the job to be done by the oil industry is so enormous in terms of capital, that I don't believe there is sufficient capital available domestically at this stage to do the job at the same rate. I then have advanced reasons and among others it has to be done as rapidly as it possibly can and where we can get help from abroad we should not be selective in looking at that policy. To me the important thing is not where the money comes from but how the thing is managed and I think it is true to say that the subsidiary companies are managed in Canada and they are staffed and managed in Canada.

THE CHAIRMAN: And the policy decisions are made here?

MR. ASH: The policy decisions are made here perhaps with some foreign representation on the Board, but they are policy decisions which in the company's interests which I hope is also Canada's interests, are in favour of the Canadian operation.

THE CHAIRMAN: Well, the people who have





raised questions on that last point have asked or suggested that it might be helpful for such Canadian subsidiaries to sell stock to Canadians, to have on their boards some Canadians who were not directly connected with the companies in question and to publish their financial statements. I will put that as a question or merely a statement, however you like.

MR. ASH: I will answer it in a moment. I would like to revert to the previous question and put it in reverse and say I think it would be a great mistake to hamper the inflow of capital into Canada by any artificial means such as governmental.

THE CHAIRMAN: But you have been suggesting one of the troubles is to get more capital and these people say that is one way to get more capital and you would get more Canadian capital at the same time.

MR. ASH: Do you think Canada could produce \$8 billion in the next ten years in one industry alone?

THE CHAIRMAN: As to the oil industry, can you suggest any way in which Canadians can invest in this industry to a substantially greater extent than they are doing at present?

MR. ASH: I am not sure if I can answer that as directly as you have asked it. I would say that personally I believe this thing will vary from company to company and industry to industry. Within my industry I direct you to the Trans-Mountain Pipe





Line and as a matter of deliberate policy we opened that to the Canadian public for the very reason you are advocating, that we wanted the public on our side, we wanted the public interested in our venture and for that reason we sold a substantial percentage of our stock to the general Canadian people. A lot of it did find its way back to other countries but we did allocate a substantial amount of stock to the Canadian people. I say it was right for that particular company. It could be for another company without mentioning any names, which is trying to expand very rapidly, that could obtain its funds in sufficient quantity from its parent and if you believe the competitive oil industry is a good thing for Canada and a reasonably rapid growth of the oil industry is good for Canada then that company might think it is better at this particular stage of its growth to operate as a wholly owned subsidiary where it does not have to publish its results to the public or competition and where it can use its own domestic policies within its own company to further its own interests in Canada. Is that too complex a reply?

THE CHAIRMAN: No, I am not sure it will convince everybody but it is an expression of opinion.

MR. ASH: Again putting it in reverse is it fair of such a company, and let us consider it may have some judgment in the matter, that it believes in its own interests to act in a certain way, is it right to prevent it in an artificial way from acting in that way?

THE CHAIRMAN: Well, it can be that the people who have raised this question -- and it is going



to be raised again in one of the briefs we are going to receive later this week -- they question whether it is necessarily in the best interest of this country just because it may be in the best interest of the parent company.

MR. ASH: But is it not in the best interests of this country to have a competitive industry which is competitive in all its branches and companies? Why should a particular oil company be penalized?

THE CHAIRMAN: How do you mean a particular company?

MR. ASH: Well, a private company.

THE CHAIRMAN: Well, some of the public companies think that the best interests of all concerned would be served if the private company statements were made public. In fact I suspect that somebody is going to appear before us tomorrow and make that statement, and I thought I might have a convincing answer for them. Let us leave that question for them, Mr. Ash. You have in your submission talked about restrictions and various restraints and so on and I think somewhere you have suggested that the tax structure for the oil industry in Canada should be at least as favourable as the tax structure for the oil industry in the United States. I don't think there is any doubt in anybody's mind that the United States has gone out of its way to provide its citizens with tax incentives to invest in oil all over the world. Really, as you say, a good many of the discoveries in Texas and other parts of the world were made by independent wild-catters and to the extent that





they were individuals rather than companies I suppose some of them were at least in the very top brackets of the personal income tax and as the expenditures of their explorations were deductible from taxes in a way the United States Government is doing the wild-cattling or at least paying for it.

MR. ASH: You are saying it, Mr. Chairman, not I.

THE CHAIRMAN: Well, at least put it another way, those expenditures are deductible from taxes?

MR. ASH: Yes, I don't think it is fair to compare it. They are mostly companies.

THE CHAIRMAN: What I want to get at is this: because it is the policy of the United States Government to promote oil exploration and development by American citizens and American companies all over the world, and because they provide very substantial tax incentives to do so, do you think that it necessarily follows that the same policy is appropriate for Canada or do you think that in Canada, for instance, it might be of equal or greater importance to provide incentives for exploration in the mining field or the development of the forestry industry, or to make sure I am not unfair to all concerned, to build up a greater manufacturing industry? I mean in this country we have got other things as well as oil that are important.

MR. ASH: Oil is a very important factor of your energy industry as I have tried to show in this brief and what I really was trying to show there was that



it was somewhat tied up with your question of foreign industry because as Canadians we deplore, if you like, a foreign industry. Let us see that our own industry is put on a competitive basis with the foreign company.

THE CHAIRMAN: Those are your words and not mine. I think, though, one of the difficulties is whether it is sufficiently important to favour one industry as against another in providing tax incentives. Now, it may be ---

MR. ASH: I am not advocating that at all. I don't advocate for a minute that oil should be treated more advantageously, as you call it, or more favourably over mining. I simply say the peculiar characteristics of the oil industry should be taken account of tax-wise as they have been taken account of in the greatest oil producing country in the world, and that oil is a peculiar business.

THE CHAIRMAN: I want to ask you a question or two about that. You were talking about markets and on page 5 you make the statement that "It would be a manifest absurdity, for example, to carry Western Canadian oil to Halifax. At Montreal it becomes a question of degree. Imports of foreign crude into Quebec and the Maritime Provinces seem likely to continue for some time to come. Nevertheless the Canadian balance on crude oil account will improve steadily over the next ten years". Now, I was not quite clear on that. Do you think it is a good thing to import foreign crude into the Montreal market?

MR. ASH: As long as it is more economic





crude, yes.

THE CHAIRMAN: As long as it is cheaper than it would be if it is piped in from Alberta?

MR. ASH: Yes.

THE CHAIRMAN: Then in that event ---

MR. ASH: May I interrupt to explain that that is my advocacy of extending the radius of Alberta crude by encouraging greater production so that its radius for economic use is easily extended and could easily be extended to Montreal. On the day that Canadian industry for any reason -- volume or any other reason, is producing crude oil at a unit cost that makes it economical to be laid down at Montreal on a competitive basis with overseas crude, I would be the last one to advocate that we import crude. The chief factor is the cheap transportation, that it could be laid down more cheaply due to the fact that our crude is used for other purposes.

THE CHAIRMAN: Such as what?

MR. ASH: The Western United States.

THE CHAIRMAN: When the Seaway is opened up do you expect the foreign crude will be delivered in Toronto?

MR. ASH: I rather doubt it frankly unless there is tremendous dredging. One of the reasons for this very low tanker rate on crude is that they are built about the size of the Queen Elizabeth or the Queen Mary. They won't be able to come to Toronto; it will still be relatively small tankers.

THE CHAIRMAN: Does that apply to Venezuela





too?

MR. ASH: Yes, they can't even get into the City of Montreal as of today.

THE CHAIRMAN: Now, in your brief you dealt with the differences between the oil industry and the manufacturing industry generally. You made the statement at one stage that ignoring price levels, capital in manufacturing should be replaceable at approximately the original cost. The risk is slight of the manufacturer not recovering his original capital through annual depreciation. Of course, I don't suppose many manufacturers would agree that you could just ignore price levels. Most of them argue very strenuously that their capital costs certainly cannot be recovered because over a long period of years there has been an upward rise in prices.

MR. ASH: I quite agree. I did not mean that that would not apply, that it would be the same on both sides of the ledger. Our capital costs have also increased in the oil industry so I don't want to say let us take that on both sides. There is still that wide discrepancy between our industry and the producer industry.

THE CHAIRMAN: You talk about the risks in the oil business and I am sure there are tremendous risks in discovering a new field and so on but if you knew that oil was there as I presume it is felt that there are considerable quantities of oil in Alberta, and if you had one company with a tremendous amount of money which would somewhat be in a position to drill a



great many wells then it would seem the element of risk was reduced very substantially. If you had one independent company, one independent company going out with enough money to build one well, I would suspect it would be a risky proposition. In fact, any I have participated in proved to be very risky, but as you increase the coverage, so to speak, the element of risk surely is reduced?

MR. ASH: Somewhat, yes, but it is still terrific. 3 percent success in the United States of what they call rank wildcat drilling completely removed from other people.

THE CHAIRMAN: If you say that then you have got to divide up the number of wildcats from all the others and I suppose rank wildcats are a fairly small percentage of the whole?

MR. ASH: Oh, no.

THE CHAIRMAN: Are they not?

MR. ASH: Perhaps expressed as a percentage of the whole, yes, but they are the lifeblood of the industry. If we did not drill them -- I would disagree with your remark about one company, because you would only get one talent.

THE CHAIRMAN: Say half a dozen, or a dozen, or twenty.

MR. ASH: The more the better; that is the real answer.

THE CHAIRMAN: If you have a very large amount of capital, you are bound to reduce the amount of risk?





MR. ASH: Well, I hesitate to say this but you could conceivably have one company operating this thing as a government department. I don't think I would like to see wildcatting reduced to a civil service basis.

THE CHAIRMAN: Be careful, there are some civil servants here. They think they are pretty important.

MR. ASH: That is why I hesitated to say it but I think part of the secret is you have a number of competing companies with a number of different types of talent. That is a benefit.

THE CHAIRMAN: Well, I don't want to prolong this. I was not completely convinced by the relative safety of the ordinary manufacturing. Considering it and your view, it seems to me that there is a lot to be said for people writing off their capital expenditures quickly so that the element of risk is reduced at least to the extent of the income authorized and that maybe would apply in one industry as well as another, I suppose.

MR. ASH: Did I say "authorized"? I didn't mean to.

THE CHAIRMAN: On this question of depletion, Mr. Ash, and forgetting what they do in the United States for a moment, the expenditures on drilling and exploration as we have just said, should be written off against the income and I suppose the question is what is the best method of doing that. Is there a valid argument for allowing write-offs of more than the



original drilling costs or should the depletion write-off be limited to the amount expendable? If it goes farther than that in fact it represents a different rate of tax for one industry than another. In your industry, I don't know whether you get your original cost back again from the way the tax set-up is.

MR. ASH: We sometimes don't. No, I can't agree that it should just be the original drilling cost. The idea of depletion allowance which has been recognized by the Canadian government, it is the rate of termination that we question. The basic idea of depletion allowance is to replace that underground capital and you are depleting your capital underground every time you take a barrel out.

THE CHAIRMAN: But your capital underground costs you so much, doesn't it?

MR. ASH: It is worth so much.

THE CHAIRMAN: Well, but then you get back to the same argument with other industries.

MR. ASH: The mining would certainly back us up.

THE CHAIRMAN: Or the people who are not entitled to depletion. A manufacturer would say that his plant is worth so much but he is only entitled to depreciate it on the basis of historical cost. He might argue that way too.

MR. ASH: If he could say that I would like to sit down at lunch with him.

THE CHAIRMAN: He would like to sit down with you and argue with you about this depletion but





there is no sign of lunch so perhaps we had better get on to the next question. Is it possible to obtain comparisons of the costs per barrel represented by exploration -- the exploration cost per barrel of oil discovered and the development cost per barrel of oil discovered in Canada and in various sections of the United States and other countries?

MR. ASH: They would be very broad approximations, I am afraid. There are a tremendous number of variable factors. One would be the comparative age of the Canadian industry as compared with the comparative age of the United States industry. Another important factor would be the thickness of the reservoir and the difference in pay sand they are obtaining in the United States and the Middle East.

THE CHAIRMAN: Would it be possible to get the cost per barrel in Canada at the present day?

MR. ASH: It would be possible.

THE CHAIRMAN: Have you any idea?

MR. ASH: Well, naturally it is a guess. These minor subsidiary companies don't give a figure. I would say it was close to \$400 million a year by the total industry in the west being spent. It was probably less last year or the year before but we can give you an approximate figure and show you the barrels of oil that have been discovered to date which I have already quoted at three billion.

THE CHAIRMAN: Divided up between exploration and development?





MR. ASH: An approximation, yes.

THE CHAIRMAN: I would be most grateful to you if you would give us those figures and if you could give us comparable figures in parts of the United States with any qualifications that are necessary, it would be most interesting to us. I realize if you take the whole of the United States to lump everything in from the beginning of time to the present it would not mean very much but if the various oil producing areas were divided up and again further divided by further periods of years, what the costs had been in the early stages and what they are in the later stages -- if that is possible.

MR. ASH: I don't know if the latter one is without a great deal of work.

THE CHAIRMAN: I am not suggesting anything that would involve a great deal of extra research or anything like that but if you can give approximate figures I think we would be most interested. I don't know whether it costs more per barrel to find oil in Canada and to develop it than it has in the United States. I just don't know. It is those sort of figures I would like.

MR. ASH: I think you will find, speaking in generalities, they will show this, they will show that Canadian oil at the moment may be a little cheaper to find but it is worth less when it is found due to these topographical limitations.

THE CHAIRMAN: Yes, and the market is very limited at the moment. Well, I won't ask you any



questions about the last section on educational requirements. It does seem to me that the implication of these remarks was perhaps we are all getting a little soft because times are so good.

MR. STEWART: Just this point, Mr. Ash: the effect of the tax changes which you would support would be to encourage exploration?

MR. ASH: Yes.

MR. STEWART: How has our ratio of known reserves to production been moving?

MR. ASH: More rapidly than production for the time being.

MR. STEWART: So that the immediate effect at least of tax change would be to still further increase the ratio of reserves to production?

MR. ASH: Yes.

MR. STEWART: So that you are really encouraging people to find and keep oil in the ground?

MR. ASH: Find, not to keep oil because I feel that oil will find its market. The more there is the more likely it is to find its market.

THE CHAIRMAN: Do you have to find it before you find the market?

MR. ASH: I think that has been the history of the oil industry.

MR. STEWART: How much do you have to find? Is there an answer to the question of what the reserves should be in reasonable proportion to the production?

MR. ASH: I don't think you can find too





much. That is not forbidden.

THE CHAIRMAN: No, I don't think it is forbidden at all.

MR. ASH: If we give our rate of exploration to our market, if we had been doing that in the oil industry and if we tried to do it today we would fall behind the world oil industry without any question because lots of other countries are proving it up rapidly without a thought for marketing. Marketing comes later and that is one of our troubles. That is when oil can be sold in Canada cheaply laid down in Montreal.

MR. STEWART: Would you say the oil industry is relatively profitable compared with some other industries?

MR. ASH: I would say that certain segments of the oil industry with the talent and management and professional skill are undoubtedly making profit but there are big segments of the industry that do not have all those things which, as we know from the newspapers, are not doing so well.

MR. STEWART: Would you suggest that these tax concessions only be given to the ones that are not doing so well?

MR. ASH: Some of the tax concessions I admit will prevent certain independent mergers.

MR. STEWART: This seems to me a question of how much money you want to put down into a hole for the moment to hold for some future time. The allowables are cut and have been cut.



MR. ASH: They are rising at the moment because we are finding markets and these figures show they will continue to rise until we come to balance in about ten years, so what I am saying is encourage that trend.

MR. STEWART: But if we put more money into exploration and discovery of reserves than into producing wells which we have to put on allowables, if we do that too fast your allowables won't catch up?

MR. ASH: I don't agree. I would not artificially gear the amount of money you allow the industry to spend by the allowables.

MR. STEWART: It seems to me you could get a rate of discovery of reserve which would even with the expanding market keep your allowables down to where they are now?

MR. ASH: It is conceivable but you don't see so. On the contrary all our figures as indicated here and other briefs submitted to you, show the allowable or the market or the outlets catching up with the basic reserves.

MR. STEWART: Have you any views on the possibilities of the bituminous zones having any effect in the period we are concerned with, the next 25 or 30 years?

MR. ASH: I was very careful when I put 10 years in there. I am not sure if I can answer that. I believe that the day will come -- but I can't predict when -- that bituminous zones will become a factor because I believe that oil, even in Canada, is



conventionally oil which is going to be even more and more expensive to find, and as it becomes more difficult to find bituminous zones which you can see within certain limits will become economic. Today they probably are not economic alongside a well close to Edmonton, we will say. It is close to the market and close to the pipeline.

MR. STEWART: It is a nice known reserve to have sitting there?

MR. ASH: And a very big one indeed.

THE CHAIRMAN: Well, thank you very much, Mr. Ash. You have been very helpful to us and I appreciate it and if you could let us have your figures.

We will adjourn now.

(At 4:45 P.M. the Commission adjourned until 10:00 A.M.)

Tuesday, 31st January, 1956)



















